Supreme Court, U.S.
FILED
98 149 JUL 17 1998
OFFICE OF THE CLERK

No. _____

In The

Supreme Court of the United States

COLLEGE SAVINGS BANK,

Petitioner,

vs.

FLORIDA PREPAID POSTSECONDARY EDUCATION EXPENSE BOARD,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Third Circuit

PETITION FOR A WRIT OF CERTIORARI

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160 pp

QUESTIONS PRESENTED

1. Did the United States Congress have the power under Section Five of the Fourteenth Amendment to enact that portion of the Trademark Remedy Clarification Act of 1992, Pub. L. No. 102-542, 106 Stat. 3567 (1992) ("TRCA"), which abrogated the states' Eleventh Amendment immunity for unfair competition suits alleging that a state engaged in false and misleading advertising of its product in violation of § 43(a) of the Lanham Act ?

2. Did Florida Prepaid Postsecondary Education Expense Board waive its Eleventh Amendment immunity under the constructive consent doctrine set forth by this Court in *Parden v. Terminal Ry. of Ala. State Docks. Dep't.*, 377 U.S. 184 (1964), by continuing to engage in the interstate marketing of its products after Congress' enactment of TRCA by which the states were subjected to suits in federal court for cases arising from violations of § 43(a) of the Lanham Act?

PARTIES TO THE PROCEEDING

In addition to the parties named in the caption, the United States of America was a party before the Court of Appeals.

Petitioner College Savings Bank has no parent company. It has one wholly owned subsidiary, College Savings Trust, Helena, Montana.

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APPENDIX

Appendix A. Opinion of the United States Court of Appeals for the Third Circuit Filed December 5, 1997.

Appendix B. Opinion of the United States District Court for the District of New Jersey Filed December 13, 1996.

Appendix C. Denial of Petitioner CSB's petition for rehearing filed February 17, 1998.

Appendix D. Opinion of the United States Court of Appeals for the Federal Circuit in *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, __ F.3d __ (Fed. Cir. June 30, 1998).

OPINIONS BELOW

The opinion of the United States Court of Appeals for the Third Circuit is reported at *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, 131 F.3d 353 (3rd Cir. 1997) (App. A). The opinion of the United States District Court for the District of New Jersey is reported at *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, 948 F. Supp. 400 (D.N.J. 1996) (App. B).

STATEMENT OF JURISDICTION

The judgment of the United States Court of Appeals for the Third Circuit ("Court of Appeals") was entered on December 5, 1997. The Court of Appeals denied a timely petition for rehearing on February 17, 1998 (App. C). College Savings Bank's application for an extension of time to file a Petition for a Writ of Certiorari was granted by Justice Souter on April 21, 1998, extending the time to and including July 17, 1998.

The jurisdiction of the Court is invoked under 28 U.S.C. § 1254(1).

STATEMENT REQUIRED BY RULE 29.4(b)

Pursuant to Rule 29.4(b), the Court is informed that 28 U.S.C. § 2403(a) applies and the U.S. District Court for the District of New Jersey certified to the Attorney General that the constitutionality of Acts of Congress were called into question by Florida Prepaid's motions to dismiss. The United States Government intervened as an Intervenor-

Plaintiff-Appellant in the district court and also appealed to the United States Court of Appeals for the Third Circuit.

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

The Eleventh Amendment provides:

> The judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States by citizens of another state, or by citizens or subjects of any Foreign State.

The Fourteenth Amendment to the United States Constitution provides in relevant part:

> Section 1:
> "No State shall . . . deprive any person of life, liberty, or property, without due process of law."
>
> Section 5:
> "The Congress shall have power to enforce, by appropriate legislation, the provisions of this article."

Section 3 of the Trademark Remedy Clarification Act in relevant part provides:

> (a) LIABILITY AND REMEDIES.—Section 32(1) of the Act (15 U.S.C. 1114(1)) is amended by adding at the end thereof the following:
>
> "As used in this subsection, the term 'any person' includes any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his or her official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this Act in the same manner and to the same extent as any nongovernmental entity."
>
> (b) LIABILITY OF STATES, INSTRUMENTALITIES OF STATES, AND STATE OFFICIALS.—The Act is amended by inserting after section 39 (15 U.S.C. 1121) the following new section:
>
> "Sec. 40. (a) Any State, instrumentality of a State or any officer or employee of a State or instrumentality of a State acting in his or her official capacity, shall not be immune, under the eleventh amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in Federal court by any person, including any governmental or nongovernmental entity for any violation under this Act.

(b) In a suit described in subsection (a) for a violation described in that subsection, remedies (including remedies both at law and in equity) are available for the violation to the same extent as such remedies are available for such a violation in a suit against any person other than a State, instrumentality of a State, or officer or employee of a State or instrumentality of a State acting in his or her official capacity.

* * *

(d) DEFINITION.—Section 45 of the Act (15 U.S.C. 1127) is amended by inserting after the fourth undesignated paragraph the following:

"The term 'person' also includes any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his or her official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this Act in the same manner and to the same extent as any nongovernmental entity."

Section 43(a) of the Lanham Act provides:

(a) (1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any

word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which

(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or

(B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities, shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

(2) As used in this subsection, the term "any person" includes any State, instrumentality of a State or employee of a State or instrumentality of a State acting in his or her official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this chapter in the same manner and to the same extent as any nongovernmental entity.

STATEMENT OF THE CASE

There are two constitutional issues involved in this case. First, petitioner College Savings Bank ("CSB") maintains that the Court of Appeals erred by concluding that Congress lacked the power under Section 5 of the Fourteenth Amendment to enact the TRCA making the states subject to suit under § 43(a) of the Lanham Act. Section 43(a) is a provision available only to protect a business against unfair competition, *i.e.*, to protect against the deprivation of property which results from unfair competition. As was recognized by the Court of Appeals, this Court has long recognized that a business is a property right protected by the Fourteenth Amendment. Contrary to the Court of Appeals decision, there is no basis for differentiating between business property rights which are subject to Fourteenth Amendment protection and those which are not.

Second, the Court of Appeals erred in concluding that the activities of Florida Prepaid are beyond the reach of the *Parden* doctrine because the Court applied the wrong test. *Parden v. Terminal Ry. of Ala. State Docks Dep't.*, 377 U.S. 194 (1964). The Court of Appeals has confused the difference between education as an important state function and the states entering into the commercial financial world by offering investment vehicles to assist private citizens in meeting the cost of a college education. Under the broad doctrine enunciated by the Court of Appeals, there is virtually no activity that could be undertaken by a state which would not be found to be beyond the reach of the *Parden* doctrine.

The jurisdiction of the U.S. District Court for the District of New Jersey was based upon 28 U.S.C. §§ 1131, 1137(a) and 1338(a) and 15 U.S.C. § 1121(a).

A. BACKGROUND OF THE COURT OF APPEALS' JUDGMENT

Petitioner College Savings Bank ("CSB") is a New Jersey chartered, FDIC-insured bank which has been engaged since 1987 in selling "CollegeSure® CDs," a deposit contract administered in accordance with a patented methodology that provides sufficient funds to meet future and unknown college expenses. Respondent Florida Prepaid Postsecondary Education Expense Board ("Florida Prepaid"), which was created by Fla. Stat. Section 240.551, is a "body corporate" of the State of Florida, which engages in the interstate marketing of a similar investment product in competition with CSB, *i.e.*, a program to meet future costs of a college education. The Florida Prepaid program, which has been offered since 1988, is advertised and promoted nationally by brochures, press releases and other means.

B. THE PROCEEDINGS BELOW

CSB brought an action against Florida Prepaid on November 7, 1994, Civ. No. 94-5610 (GEB), in the United States District Court for the District of New Jersey, contending that Florida Prepaid had infringed CSB's patent. CSB filed a second complaint, the one giving rise to this petition, against Florida Prepaid on August 25, 1995, alleging that Florida Prepaid's interstate marketing of its program was in violation of § 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), and the common law tort of unfair competition, Civ. No.

95-4516 (GEB). CSB contends that Florida Prepaid has falsely represented that the State of Florida guarantees that all beneficiaries will have an amount necessary to pay for the cost of a college education; that tax liability on the contract is deferred until the benefits of the contract, including proceeds for dormitory expenses, are disbursed upon enrollment in college; that Florida Prepaid's investment portfolio is backed by the "full faith and credit" of the United States; and that Florida Prepaid failed to disclose the existence of CSB's patent infringement case.

Florida Prepaid answered CSB's Lanham Act complaint and filed a counterclaim on November 8, 1995, which challenged the reach of the First Amendment by contending that certain statements made by Mr. Peter Roberts, President of CSB, represented actionable defamation, product disparagement, and trade libel. CSB filed a motion to dismiss the counterclaim on February 9, 1996, contending that a governmental entity cannot maintain libel or defamation actions because they are inconsistent with the free speech guarantees of the First Amendment. That motion was granted by the District Court on March 22, 1996. The dismissal was not appealed and the district court decision is not involved in this petition. *College Savings Bank v. Florida Prepaid Postsecondary Educ. Exp. Bd., 919 F. Supp. 756 (D.N.J. 1996) ("College Savings Bank I").*

Subsequent to this Court's decision in *Seminole Tribe v. Florida*, 517 U.S. 44 (1996), Florida Prepaid filed motions to dismiss both the Patent Act and Lanham Act cases contending that the decision deprived the court of jurisdiction under the Eleventh Amendment. Florida Prepaid's motion to dismiss CSB's Lanham Act case was granted and the case

dismissed by the District Court's order of December 13, 1996. *College Savings Bank v. Florida Prepaid Postsecondary Educ. Exp. Bd., 948 F. Supp. 400 (D.N.J. 1996) ("College Savings Bank II").*[1]

A timely appeal was filed with the United States Court of Appeals for the Third Circuit. The Court of Appeals affirmed the district court's judgment.

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[1] The district court, in the same decision giving rise to this petition, denied Florida Prepaid's motion to dismiss the Patent Act case. This denial was based upon the district court's finding that Section Five of the Fourteenth Amendment empowered the Congress to enact the Patent and Plant Variety Protection Remedy Clarification Act, Pub. L. No. 102-560, 106 Stat. 4230, which amended the Patent Act to permit States to be brought into federal court to defend against patent infringement claims. 35 U.S.C. §§ 271(h) and 296. This was based upon the district court's finding that a patent is a property interest that Congress can protect by exercising its abrogation power under Section Five of the Fourteenth Amendment. This holding was appealed by Florida Prepaid to the United States Court of Appeals for the Federal Circuit. The Federal Circuit affirmed the district court in a decision issued on June 30, 1998. *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, __ F.3d __, (Fed. Cir. 1998) (App. D.).

ARGUMENT

I. THE PETITION FOR A WRIT OF CERTIORARI SHOULD BE GRANTED BECAUSE THE COURT OF APPEALS HAS HELD AN ACT OF CONGRESS UNCONSTITUTIONAL BY HOLDING THAT THE LIBERTY AND PROPERTY RIGHTS PROTECTED BY § 43(A) OF THE LANHAM ACT ARE NOT PROTECTED BY THE FOURTEENTH AMENDMENT, A DECISION WHICH IS CONTRARY TO CLEAR FINDINGS BY THIS COURT THAT BUSINESS PROPERTY IS PROTECTED BY THE FOURTEENTH AMENDMENT.

In this case of first impression, the Court of Appeals declared unconstitutional the *Trademark Remedy Clarification Act of 1992*, Pub. L. No. 102-542, 106 Stat. 3567 (1992) ("TRCA"). In enacting the TRCA, Congress abrogated the Eleventh Amendment immunity of the States in order to permit federal court jurisdiction over actions under § 43(a) of the Lanham Act, 15 U.S.C. § 1125(a). The Court of Appeals' decision, which served to nullify Congress' Section 5 enforcement powers, is contrary to this Court's construction of the scope of the liberty and property interests protected by the Fourteenth Amendment.

In addition to the Court of Appeals decision in the instant case, other circuits have addressed the scope of Congress' Section 5 powers subsequent to *Seminole*. *See College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, __ F.3d __, (Fed. Cir. 1998) (App D.). *Chavez v. Arte Publico Press*, 139 F.3d 504, 510-11 (5th Cir.

1998); and *In re Creative Goldsmiths of Washington, D.C., Inc.*, 119 F.3d 1140 (4th Cir. 1997). The Federal Circuit decision was in an appeal from the same district court decision giving rise to the Third Circuit Court of Appeals decision addressed in this petition.

The Third Circuit Court of Appeals expressed the fear that accepting CSB's argument would give to Congress "almost unrestricted power to subject states to suit through the exercise of its abrogation power." App. A at 16a. The Fifth Circuit held that any right created by Congress pursuant to Article I is beyond the reach of Congress' abrogation power under Section 5 of the Fourteenth Amendment. *Chavez v. Arte Publico Press*, 139 F.3d 504, 511 (5th Cir. 1998) ("Congress could easily legislate 'property' interests and then attempt to subject states to suit in federal court for the violations of such interests. This end-run is just as possible under a liberal interpretation of the Due Process Clause of the Fourteenth Amendment as it was under the theories of Article I rejected by the Court in *Seminole*".).

The Federal Circuit disagreed with the above analyses. *College Savings Bank*, App. D at 111a. ("These cases miss the mark, however, because they ignore the essential fact that, because the Fourteenth Amendment was enacted subsequent to the Eleventh Amendment, unlike Article I, it expressly qualified the principle of sovereign immunity.") The Federal Circuit concluded:

> Our sister circuits wrongly equate the result afforded by Congressional power under the Fourteenth Amendment and Article I with the Constitutional structure under which Congress

> governs and the federal courts exercise jurisdiction. When the states adopted the Fourteenth Amendment, and consented to cede a portion of their authority to the federal government, it was within their contemplation that they limited their Eleventh Amendment immunity. *Fitzpatrick* teaches so, and we adhere to its reasoning. *See* 427 U.S. at 453-54.

Id. at 111a.

There is a clear split between the Third (and Fifth) and Federal Circuits in the approach to the scope of Congress' power under Section 5. As discussed by the Federal Circuit, the implications of the decisions of the Third and Fifth Circuits would eliminate Congress' power under Section 5 to enforce the provisions of Section 1 as applied to a wide range of property rights protected by the Fourteenth Amendment.

As found by the Federal Circuit, the jurisdictional restrictions imposed by the Eleventh Amendment cannot defeat the power of Congress under Section 5 of the Fourteenth Amendment. The Federal Circuit's interpretation of the congressional power under the Fourteenth Amendment is in accord with the precedents of this Court.

Additionally, it is this Court, not the Congress, which established that a business is a property right protected by the Fourteenth Amendment. The property right to be free of unfair competition is central to the property rights of a business. Further, unfair competition is made actionable in order to guard the "right to acquire property by . . . the conduct of a

lawful business." *International News Service v. Associated Press*, 248 U.S. 215, 236 (1918). The Court of Appeals, however, implicitly, and inaccurately, concluded that by the enactment of the TRCA, Congress was exercising its Fourteenth Amendment Section 5 abrogation power for causes of action that stemmed solely from Congress' Article I powers. App. A at 17a. ("Congress could pass any law that tangentially affected the ability of a business to operate and then create causes of action against the states in federal court if they infringed on those federally created rights.")

A. CONGRESS' SECTION FIVE, FOURTEENTH AMENDMENT POWER.

This Court in *Seminole* recognized that Congress has the authority under the Fourteenth Amendment to enact legislation to enforce the provisions of the Amendment including abrogating the Eleventh Amendment immunity of the states:

> In *Fitzpatrick*, we recognized that the Fourteenth Amendment, by expanding federal power at the expense of state autonomy, had fundamentally altered the balance of state and federal power struck by the Constitution . . . . We noted that § 1 of the Fourteenth Amendment contained prohibitions expressly directed at the States and that § 5 of the Amendment expressly provided that "The Congress shall have the power to enforce, by appropriate legislation, the provisions of this article." . . . We held that through the Fourteenth Amendment, federal

> power extended to intrude upon the province of the Eleventh Amendment and therefore that § 5 of the Fourteenth Amendment allowed Congress to abrogate the immunity from suit guaranteed by that Amendment.

Seminole, 517 U.S. at 59 (citations omitted). *See also City of Boerne v. Flores*, 117 S. Ct. 2157 (1997).

The Court of Appeals correctly found that this Court has set forth a two-part standard to determine Congress' power to abrogate the Eleventh Amendment immunity of the States. This Court has stated that in order to find a valid abrogation, two questions must be answered affirmatively: "First, whether Congress has 'unequivocally expresse[d] its intent to abrogate the immunity,' and; second, whether Congress has acted 'pursuant to a valid exercise of power.'" *Seminole*, 517 U.S. at 55.

The Court of Appeals found that the language of the TRCA "manifests Congress' unambiguous intent to abrogate the states' immunity." *College Savings Bank II*, App. A at 8a. This finding by the Court of Appeals is beyond argument. The pertinent portions of the TRCA state that any state, or instrumentality of the state "shall not be immune, under the Eleventh Amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in Federal court by any person. . . . " 15 U.S.C. § 1122. Therefore, Congress' action satisfies the first part of the test as set forth in *Seminole*.

The Court of Appeals' also found that: "Clearly, a business is an established property right entitled to protection

under the Fourteenth Amendment." (Citations omitted) App. A at 15a. Despite that holding, the Court of Appeals found that the TRCA failed to meet the second part of the test set forth in *Seminole* by concluding that destruction of the property interests of CSB by unfair and deceptive advertising is beyond the reach of the Fourteenth Amendment. The Court held, with respect to § 43(a) of the Lanham Act, that the "only cognizable property right that could be involved would be a right to be free of false advertising, a right that is not an intangible property right protected under the Fourteenth Amendment." App. A at 14a. The court also held that "just because the state's actions impact on a private business does not mean that this action somehow infringes on the Fourteenth Amendment rights of the private individual." App. A at 16a, 17a.

Those holdings misstate the issue. The essence of the property rights protected by § 43(a) is the loss of revenue and profits that results from a competitor falsely advertising its product. The "state's action impact[ing] on" CSB was the loss of customers. By engaging in unfair competition, Florida Prepaid has made sales of its investment products which would otherwise have been made by CSB. CSB has lost the earnings that would have resulted from those sales. Ultimately, it is this loss of money, which clearly is property, that § 43(a) is designed to protect.

In sum, the attempt by the Court of Appeals to bifurcate property rights into those which are protected by the Constitution and those which are not is fatally flawed.

B. SECTION 43(a) OF THE LANHAM ACT PROTECTS A BUSINESS' PROPERTY RIGHTS.

Section 43(a) of the Lanham Act represents a federal codification of the tort of unfair competition, a tort that, by definition, serves to protect property rights. The Act in pertinent part states that the intent is "to protect persons engaged in . . . commerce against unfair competition . . . . " 15 U.S.C. § 1127. It has long been recognized that the tort of unfair competition protects property rights. As noted in *Prosser and Keeton on Torts:* "unfair competition torts appear to involve less a question of tortious activity than a question of *property* to be protected. Intangible interests . . . are often treated as *property* and given protection even from innocent and unknowing infringement by others." W. Page Keeton, et al., *Prosser and Keeton on the Law of Torts*, § 130, at 1015 (5th Ed. 1984) (emphasis added).

Further, § 43(a) of the Lanham Act is simply a federal codification of the common law tort of unfair competition. *See SK&F, Co. v. Primo Pharmaceutical Laboratories*, 625 F.2d 1055, 1066 (3d Cir. 1980) ("[E]xcept for the interstate commerce requirement, the elements of the unfair competition torts described by New Jersey law and by Section 43(a) of the Lanham Act are the same."). *See also, AT&T Co. v. Winback and Conserve Program, Inc.*, 42 F.3d 1421, 1428 (3d Cir. 1994), *cert. denied*, _____ U.S. ____, 115 S. Ct. 1838 (1995). Thus, the Fourteenth Amendment, by affording protection to "property," by its terms extends to the tort of unfair competition.

Treating the rights against unfair competition codified by § 43(a) of the Lanham Act as property rights protectable by the Fourteenth Amendment and within Congress' power under Section Five of that Amendment is consistent with this Court's precedent. *International News Services v. Associated Press*, 248 U.S. 215, 236 (1918) ("[T]he *right to acquire property* by honest labor or the conduct of a lawful business is as much entitled to protection as the *right to guard property already acquired. . . . It is this right that furnishes the basis of the jurisdiction in the ordinary case of unfair competition).* (citations omitted) (emphasis added).

More recently, this Court broadly defined property rights to include even the right to publicity. *Zacchini v. Scripps-Howard Broadcasting Co.*, 433 U.S. 562 (1977). The Court in that case recognized the broad scope of "property" rights and also noted that protecting the right of publicity "provides an economic incentive for him to make the investment required to produce a performance of interest to the public. The same consideration underlies the patent and copyright laws long enforced by this Court." *Id* at 576.

C. BUSINESSES HAVE LIBERTY AND PROPERTY INTERESTS PROTECTED BY THE FOURTEENTH AMENDMENT.

A long line of decisions of this Court have found that a business is a property or liberty interest. It follows inexorably that the Fourteenth Amendment protects against any activities by the states that impair or destroy a business' property. Similarly, the Congressional power under the Fourteenth Amendment "to enforce by appropriate legislation the provisions" of the Fourteenth Amendment

encompasses legislation protecting against actions by an "arm of the state" that may impair or destroy a business' property (by engaging in unfair and misleading marketing practices proscribed by § 43(a) of the Lanham Act, for instance).

This Court has recognized that the rights protected by the Fourteenth Amendment are inextricably intertwined and that it is immaterial whether an interest is characterized as a property interest or a liberty interest. *Smith v. Texas*, 233 U.S. 630, 636 (1914) ("Life, liberty, property and the equal protection of the law, grouped together in the Constitution, are so related that the deprivation of any one of those separate and independent rights may lessen or extinguish the value of the other three"). It is well established that a "business" is a property right entitled to protection under the Fourteenth Amendment. This Court has found that a "business . . . is a property right, entitled to protection against unlawful injury or interference . . . ." *Duplex Co. v. Deering*, 254 U.S. 443, 465 (1920).

Additionally, this Court repeatedly has held that the enforcement power of Congress under Section Five of the Fourteenth Amendment reaches "practices that in and of themselves do not violate" the Amendment. *City of Rome v. United States,* 446 U.S. 156, 177 (1980), relying, *inter alia*, upon *Ex Parte Virginia,* 100 U.S.C. 339 (1879); and *South Carolina v. Katzenbach,* 383 U.S. 301 (1966). This Court's decision in *City of Boerne v. Flores*, ____ U.S. ___, 117 S. Ct. 2157 (1997), again reconfirmed Congress' Section 5 power to enforce the Fourteenth Amendment through legislation, regardless of whether there has been a constitutional tort.

The Court of Appeals recognized the breadth of the interests found by this Court to be within the scope of property and liberty rights protected by the Fourteenth Amendment. *See* App. A at 14a, citing *Tulsa Professional Collection Serv. v. Pope*, 485 U.S. 478, 485 (recognizing an unsecured claim against the state); *Logan v. Zimmerman Brush Co.*, 455 U.S. 422, 430 (1982) ("[T]he types of interests protected as 'property' are varied and, as often as not, intangible, relating 'to the whole domain of social and economic fact' ") (citations omitted); *Paul v. Davis*, 424 U.S. 693, 710 (1976) ("[T]here exists a variety of interests which are difficult in definition, but are nevertheless comprehended within the meaning of 'liberty' or 'property' as meant in the Due Process Clause"). *See also Liggett Co. v. Baldridge*, 278 U.S. 105, 111 (1928), overruled on other grounds, *North Dakota Pharmacy Bd. v. Snyder's Stores,* 414 U.S. 156 (1973); *Pierce v. Society of Sisters,* 268 U.S. 510, 536 (1925); *Truax v. Corrigan*, 257 U.S. 312, 327 (1921); *Smith v. Texas*, 233 U.S. 630, 636 (1914); and *United States v. Tropiano*, 418 F.2d 1069, 1076 (2d Cir. 1969), *cert. denied*, 397 U.S. 102 (1970) ("the right to pursue a lawful business including the solicitation of customers necessary to the conduct of such business has long been recognized as a property right within the protection of the Fifth and Fourteenth Amendments to the Constitution") (citations omitted).

Despite its discussion of the broad protection afforded to businesses under the Fourteenth Amendment, the Court of Appeals has failed to follow the precedents of this Court defining the scope of that protection.

In contrast, the Federal Circuit found that Florida Prepaid had cited "no authority forbidding Congress from enacting statutes that abrogate state immunity in order to protect persons from property deprivations without due process of law." App. D at 105a. This applies equally to the Third Circuit's decision in the instant case. As concluded by the Federal Circuit:

> "Surely the enforcement power of Congress under Section 5 must embrace the full range of behavior that the Supreme Court has held to violate the substantive provisions in Section 1 of the Amendment."

(Citation omitted.) *Id.*

D. THE COURT OF APPEALS' DECISION IS UNSUPPORTED BY THE CASES RELIED UPON.

The Court of Appeals placed principal reliance for its holding upon *Gentry v. Howard*, 365 F. Supp. 567 (W.D. La. 1973). App A at 16a. That case stands for the unremarkable proposition that the loss of revenue resulting from a competitive service operated by a governmental entity "does not amount to a taking or deprivation of property within the meaning of the Fourteenth Amendment." *Id* at 16a. As found in that case, mere competition is not in violation of the guarantees of the Fourteenth Amendment. The Fourteenth Amendment guarantees, however, do extend to a state destroying a business' property by engaging in false and misleading advertising.

The Court of Appeals also relied upon *Hegeman Farms Corp. v. Baldwin*, 293 U.S. 163, 170 (1934), noting "the Fourteenth Amendment does not protect a business against the hazards of competition." App. A at 16a. The statement quoted by the Court of Appeals is inapplicable to this case. CSB's complaint does not seek protection from the hazards of competition, but rather protection against unfair competition in the form of false and deceptive statements that deprive CSB of its revenues and profits.

The Court of Appeals' reliance on *Paul v. Davis*, 424 U.S. 693 (1976), is also misplaced. App. A at 15a. In *Paul*, this Court rejected the proposition that a person's personal reputation alone, without monetary loss, represents an intangible property interest protected by the Fourteenth Amendment. The Court held that the prior Supreme Court cases do not establish that "reputation alone, apart from some more tangible interest such as employment, is either 'liberty' or 'property' by itself sufficient to invoke the procedural protection of the Due Process Clause." *Paul v. Davis*, 424 U.S. at 701. The right of a business, such as CSB, to seek redress for the monetary loss caused by false advertising is a property and liberty interest that differs fundamentally from the personal reputation issue addressed in that case.

The Court of Appeals also suggested that there could be a constitutional distinction within § 43(a) of the Lanham Act depending upon whether the violation consists of misrepresentation about a competitor's goods, or services or misrepresentation of one's own goods and services, which is the claim raised by CSB's complaint. App A at 17a. There is, however, no principled distinction between the two kinds of misrepresentations. The property and liberty interests

harmed by misrepresentation of a competitor's own goods or services are exactly the same as the interests harmed by misrepresentation about another person's goods or services. CSB recognizes that the panel did not decide the issue. Nevertheless, raising the possibility of a different outcome demonstrates confusion about the issue of the property interests protected by the Fourteenth Amendment.

A business represents a property right, a proposition which is beyond dispute. It is therefore neither feasible nor constitutionally sound to divide that property right so that only some portions of the right are protected by the Fourteenth Amendment. If the competitor - whether a state or a private entity - threatens a property right, Congress has the constitutional authority to prohibit that behavior, and under Section 5 of the Fourteenth Amendment, the constitutional authority to make the states amenable to suit in federal court.

II. THE PETITION FOR A WRIT OF CERTIORARI SHOULD BE GRANTED BECAUSE THE COURT OF APPEALS HAS MISAPPLIED THE *PARDEN* DOCTRINE.

The Court of Appeals declined to affirm the district court's holding that this Court's decision in *Seminole* implicitly overruled *Parden*. App. A at 24a. ("[A] court of appeals should be reluctant to hold that the Supreme Court implicitly has overruled its own decision when the Court had

an opportunity to overrule the decision explicitly and did not do so.").[2]

In *Parden*, this Court found that Congress had the power to enact legislation governing conduct in areas not

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[2] The Fifth Circuit has found that *Parden* was overruled by *Seminole*. *Chavez v. Arte Publico Press*, 139 F.3d 504, 506-08 (5th Cir. 1998). ("A fair reading of *Seminole* inescapably suggests that we must 'drop the other shoe' and declare that Congress cannot condition states' activities that are regulable by federal law upon their implied consent' to being sued in federal court.") (footnote omitted). *Id.* at 508. The Fifth Circuit concluded that its holding was not a "presumptuous, premature overruling of Supreme Court precedent." *Id.* at 508. Despite this claim, the Fifth Circuit has ruled on what it thinks this Court *will* do, not what it has done, premised principally upon this Court's decision in the now-overruled *Pennsylvania v. Union Gas*, 491 U.S. 1 (1989), and in particular Justice Scalia's dissent in that case. The Fifth Circuit's reasoning is essentially identical to the reasoning of the district court in the instant case, which the Third Circuit Court of Appeals properly declined to affirm. App. B at 68a-73a. CSB contends that the Third Circuit was correct and that it should be left to this Court to decide the fate of *Parden*.

Further, the Fifth Circuit has misinterpreted *Seminole*. In *Seminole* this Court referred to *Parden* as standing for "the unremarkable proposition that the States may waive their sovereign immunity." *Seminole*, 517 U.S. at 65. Both the Fifth Circuit and the district court in the instant case have dismissed the importance of the statement. *See Chavez*, 139 F.3d at 508 and App. B at 73a n.21. Those courts conclude that the statement only recognized the proposition that the states may choose to waive their immunity by a deliberate choice, *i.e.*, declining to assert their Eleventh Amendment immunity. The *Parden* doctrine, however, relates solely to waiver by conduct, *i.e.*, choosing to engage in an activity subject to federal regulation after Congress has made it clear that to do so will be deemed a waiver of immunity. It simply makes no sense to construe this Court's *Parden* discussion as referring to deliberate, explicit waiver by the States.

committed exclusively to the public domain and to deem a state to have constructively waived its Eleventh Amendment immunity if, after passage of the legislation, a state engaged in the regulated activity. *Parden*, 377 U.S. at 196. ("When a state leaves the sphere that is exclusively its own and enters into activities subject to Congressional regulation, it subjects itself to that regulation as fully as if it were a private person or corporation.")

The Court of Appeals set out a four-part test for determining whether the *Parden* doctrine should be applied to hold that a state has waived its Eleventh Amendment immunity and held in this case that the first three requirements of the four-part test had been met. The Court of Appeals found that by the enactment of the TRCA Congress intended that a state or instrumentality engaging in proprietary activity "that potentially falls under the Lanham Act . . ." can be held liable in federal court for violations of that Act. 15 U.S.C. § 1122. Thus, this Court's requirement that there be a clear statement of Congressional intent was met by the TRCA. *Welch v. Texas Dep't. of Highways and Pub. Transp.*, 482 U.S. 468, 478 (1987). Further, the TRCA served to give the states clear notice that continuing to engage in the regulated activities would be deemed a waiver of sovereign immunity. Finally, Florida Prepaid has engaged in the activity covered by the federal legislation, *i.e.*, has engaged in allegedly unfair competition under § 43(a) of the Lanham Act.

In the case at bar, there can be no doubt about the Congressional intention, as the Court of Appeals correctly found. Congress' sole purpose in enacting the TRCA was to allow the states to be brought into federal court to answer for violations of the Lanham Act, including § 43(a). Therefore,

the *Employees* test, which focused exclusively on discerning Congressional intent, has clearly been met, as has the requirement set forth by this Court in *Welch* that Congress' intent be expressed in unmistakably clear language.

Providing investment instruments to assist in meeting the cost of college is not a sphere committed exclusively to the states, and is therefore within the scope of *Parden*. The Court of Appeals, however, concluded that the *Parden* test was changed by this Court's decision in *Employees of the Dep't. of Pub. Health & Welfare v. Dep't. of Pub. Health & Welfare*, 411 U.S. 279 (1973). The Court of Appeals interpreted *Employees* as standing for the proposition that "a state cannot be deemed to have waived its immunity if it is engaged in an important or core government function." App. A at 19a. That is an overbroad reading.

Employees was decided prior to this Court's decision in *Welch v. Texas Dep't. of Highways and Pub. Transp.*, 483 U.S. 468 (1987), in which this Court stated that the application of the *Parden* doctrine "required an unequivocal expression that Congress intended to override Eleventh Amendment immunity." *Id.* at 478. *Employees* was a forerunner of the *Welch* decision relative to the needed clarity of the intention of Congress. In *Employees*, this Court concluded that "Congress desired to bring under the Act employees of hospitals and related institutions." 411 U.S. at 283. The significant finding by the Court, however, is that there was "not a word in the history of the [Act] to indicate a purpose of Congress to make it possible for the citizens of that State or another State to sue the State in the Federal Courts." *Id.* at 285. Because of the sweeping implications of concluding that Congress intended to impose a constructive waiver,

the Court held that "we cannot conclude that Congress conditioned the operation of these facilities on the forfeiture of immunity from suit in a federal forum." *Id.* at 285. In summary, the *Employees* case does not stand for the proposition that this Court has changed the basic test as set forth in *Parden*, *i.e.*, that the Congress has authority to impose a constructive waiver "when a state leaves the sphere that is exclusively its own and enters into activities subject to Congressional regulation." Rather, *Employees* is a forerunner of this Court's decision that Congress must clearly express its abrogation intent for the *Parden* doctrine to apply.

The Court of Appeals' discussion of the overall importance of education and the importance of education to the states is immaterial to the issue before this Court. App. A at 21a-24a. The Court of Appeals has confused the distinction between the role of the states in providing educational institutions with the quite different function of providing investment vehicles for assisting parents and others to meet the cost of college. That is not a core function of the states and certainly is not a sphere of authority exclusive to the states. *See Genentech, Inc. v. University of California*, __ *F.3d* __, 46 USPQ 2d 1586, 1592 (Fed. Cir. 1998) ("[T]he University's actions are not at the core of the educational/research purposes for which the University was chartered. . . .")

The Court of Appeals' interpretation would deprive the *Parden* doctrine of meaning since virtually any activity undertaken by the state could be interpreted as assisting some function deemed to be important to a state government. The Court of Appeals properly held that it would be improper for the Court to hold that the *Parden* doctrine has been overruled by implication. The Court of Appeals, however, by finding

Parden inapplicable based upon a conclusion that education is an important state function, effectively overrules the *Parden* doctrine by application.

In sum, the Court of Appeals erred in finding Florida Prepaid's offering of investment vehicles is beyond the reach of the *Parden* doctrine.

CONCLUSION

This case presents questions of exceptional importance -- (1) whether the Congress acted beyond its constitutional power in enacting the TRCA to the extent that it permits suits against the states for falsely advertising their products, an issue which, *inter alia*, requires a constitutional definition of the scope of the property interests protected by the Fourteenth Amendment; and (2) the proper application of the *Parden* doctrine. CSB contends that the Court of Appeals has erred in the restricted reading given to the Fourteenth Amendment and *Parden*. Additionally, there is a significant split in the Circuits on the proper interpretation of *Seminole*. By granting the petition, this Court can clarify that *Seminole* was not intended to disturb Congress' Section 5 powers under the Fourteenth Amendment or to restrict the reach of *Parden*.

Therefore, CSB respectfully requests that its petition for a writ of certiorari be granted.

July 17, 1998

Respectfully submitted,

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APPENDIX

APPENDIX A

UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

Nos. 97-5055 and 97-5086

COLLEGE SAVINGS BANK,
Appellant in No. 97-5055

UNITED STATES OF AMERICA,
Intervenor-Plaintiff in D.C.

v.

FLORIDA PREPAID POSTSECONDARY
EDUCATION EXPENSE BOARD

COLLEGE SAVINGS BANK

UNITED STATES OF AMERICA,
Intervenor-Plaintiff in D.C.

v.

FLORIDA PREPAID POSTSECONDARY
EDUCATION EXPENSE BOARD

United States of America,

Appellant in No. 97-5086

On Appeal from the United States District Court
for the District of New Jersey
(D.C. Civ. No. 95-4516)

Argued October 20, 1997

BEFORE: MANSMANN, GREENBERG, and ALARCON,* *Circuit Judges*

(Filed December 5, 1997)

OPINION OF THE COURT

GREENBERG, *Circuit Judge*.

I. INTRODUCTION

College Savings Bank ("CSB") and the United States appeal from a final judgment entered in the district court on December 16, 1996, dismissing an unfair competition claim CSB brought against Florida Prepaid Postsecondary Education Expense Board ("Florida Prepaid") under the Lanham Act. *See* 15 U.S.C. § 1051 *et seq.* They assert that the district court had jurisdiction pursuant to 28 U.S.C. §§ 1331 and 1338(a). We have jurisdiction to review the judgment of the district court pursuant to 28 U.S.C. § 1291, and we exercise plenary review. *See Alston v. Redman*, 34 F.3d 1237, 1242 (3d Cir. 1994).

II. FACTUAL AND PROCEDURAL HISTORY

CSB is a New Jersey chartered, FDIC-member bank. Since 1987, it has been selling CollegeSure(R) CDs which are deposit contracts designed to provide sufficient funds to cover future costs of college education. CSB administers these deposit contracts in accordance with a patented methodology. *See College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd.*, 948 F. Supp. 400, 401 n.1 (D.N.J.

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* Honorable Arthur L. Alarcon, Senior Judge of the United States Court of Appeals for the Ninth Circuit, sitting by designation.

1996). The State of Florida created the appellee Florida Prepaid to market and sell tuition prepayment programs designed to provide sufficient funds to cover future college expenses. *See* Fla. Stat. ch. 240.551 (1997). In conjunction with the sale of its accounts, Florida Prepaid publishes brochures and issues annual reports. Thus, CSB and Florida Prepaid compete in selling this type of college savings account.

CSB first brought an action in the district court against Florida Prepaid on November 7, 1994, alleging that Florida Prepaid had infringed its patent. CSB subsequently brought another action in the same court on August 25, 1995, against Florida Prepaid alleging that it had violated section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a).[1] CSB claimed in the second action that Florida Prepaid made misstatements about Florida Prepaid's tuition savings plans in its brochures and annual reports which constituted unfair competition. We deal only with the second action and thus our further references are to that case.

Florida Prepaid answered the complaint and filed a counterclaim on November 8, 1995, alleging defamation, product disparagement, and trade libel based on statements made by Peter Roberts, president of CSB. CSB moved to dismiss the counterclaim on February 9, 1996, and the district court granted that motion on March 22, 1996.

Florida Prepaid filed motions to dismiss CSB's complaint on April 26, 1996, alleging that the recent Supreme Court decision of *Seminole Tribe of Fla. v. Florida*, 116 S.Ct. 1114

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[1] It also pleaded a common law tort of unfair competition but we will not discuss that claim further as the district court dismissed it, and the claim obviously could not be asserted successfully in the light of the Eleventh Amendment.

(1996), which confined Congress' authority to abrogate a state's Eleventh Amendment immunity from a suit in a federal court to the enforcement section of the Fourteenth Amendment, deprived the district court of jurisdiction. Florida Prepaid claimed that: (1) in the light of *Seminole Tribe*, the Trademark Remedy Clarification Act of 1992, Pub. L. No. 102-542, 106 Stat. 3567 (1992) ("TRCA"), which abrogated the states' Eleventh Amendment immunity under the Lanham Act, was unconstitutional, because the abrogation was not a proper exercise of Congress' Fourteenth Amendment enforcement powers; and (2) *Seminole Tribe* implicitly overruled the *Parden* doctrine, which allows for the constructive waiver of Eleventh Amendment immunity by a state engaging in an activity after Congress subjected it to suit arising from the activity. *See Parden v. Terminal Ry. of Ala. State Docks Dep't*, 377 U.S. 184, 84 S.Ct. 1207 (1964). The United States intervened on August 2, 1996, to defend the constitutionality of the Lanham Act's application to the states and thus does not take a position on CSB's other arguments.

With regard to the Lanham Act claim, the district court found that, after *Seminole Tribe*, the TRCA, as applied to the present case, was an unconstitutional attempt to abrogate the states' Eleventh Amendment immunity. The court concluded that inasmuch as this case does not involve a protected property interest, the enactment of the TRCA could not be a proper exercise of Congress' powers under section five, the enforcement section, of the Fourteenth Amendment. *See College Sav. Bank*, 948 F. Supp. at 426-27. The district court further held on two separate grounds that the *Parden* doctrine of constructive waiver did not permit CSB to sue Florida Prepaid in federal court. First, the district court found that the constructive waiver doctrine did not apply because Florida Prepaid was engaging in a core government function. *See id.* at 418. Second, the district court determined that the Supreme

Court's decision in *Seminole Tribe* implicitly overruled the *Parden* doctrine of constructive waiver. *See id.* at 420. Therefore, on either of these grounds, the district court held that *Parden* did not permit CSB's suit against Florida Prepaid in federal court. Finally, the district court rejected CSB's contention that Florida Prepaid had waived its immunity through its appearance in the litigation. *See id.* at 414. Thus, the district court granted Florida Prepaid's motion to dismiss the Lanham Act claim on December 13, 1996.

CSB appealed from the dismissal of the Lanham Act claim to this court.[2] We will affirm the district court's holding that the TRCA is an unconstitutional exercise of Congress' Fourteenth Amendment powers as applied to the present case, but we express no opinion on whether *Seminole* overruled *Parden*, because we hold that even if the *Parden* waiver doctrine is still viable, it does not apply to Florida Prepaid. Finally, we hold that Florida Prepaid did not waive its Eleventh Amendment immunity through its appearance in this litigation.

III. DISCUSSION

A. The Eleventh Amendment

The Eleventh Amendment provides:

> The Judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States by Citizens of another State, or by Citizens or Subjects of any Foreign State.

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[2] The district court denied Florida Prepaid's motion to dismiss the Patent Act claim in the same order of December 13, 1996, and subsequently Florida Prepaid appealed from the denial to the United States Court of Appeals for the Federal Circuit.

The Supreme Court has interpreted the amendment to prevent suits against unconsenting states in federal court. *See Seminole Tribe of Fla. v. Florida*, 116 S.Ct. at 1122. Because Florida Prepaid is an arm of the State of Florida, *see College Sav. Bank*, 948 F. Supp. at 413, the Eleventh Amendment is a potential bar to CSB's suit against Florida Prepaid. However, this protection available to states under the Eleventh Amendment can be circumvented if Congress properly abrogates the immunity, *see Seminole Tribe*, 116 S.Ct. at 1123, or if a state waives its immunity and consents to suit in federal court. *See Welch v. Texas Dep't of Highways and Pub. Transp.*, 483 U.S. 468, 473-74, 107 S.Ct. 2941, 2946 (1987). CSB contends that there has been both abrogation and waiver in this case. We will consider each of these arguments in turn.

B. The TRCA's Abrogation of Eleventh Amendment Immunity

One of the main purposes of section 43 of the Lanham Act is to protect persons engaged in interstate commerce against unfair competition caused by false or misleading representations or advertising about goods, services, or commercial activities. *See* 15 U.S.C. § 1125(a)(1). Congress amended the Act in 1992 when it enacted the TRCA to clarify its intent to abrogate the Eleventh Amendment immunity of states in actions under the Lanham Act. *See* 15 U.S.C. § 1125(a). Congress passed the TRCA in response to *Atascadero State Hosp. v. Scanlon*, 473 U.S. 234, 246, 105 S.Ct. 3142, 3149 (1985), which required Congress to give an explicit and unambiguous statement in a statute to manifest an intent to abrogate the states' immunity under the Eleventh Amendment. *See* S. Rep. No. 102-280, at 4-7 (1992), *reprinted in* 1992 U.S.C.C.A.N. 3087, 3090-93. By enacting the TRCA, Congress intended to place states on an equal

footing with commercial competitors. *See id.* at 3093, 3095. Inasmuch as Florida Prepaid is an arm of the State of Florida, the TRCA by its terms, if valid, would abrogate Florida Prepaid's Eleventh Amendment immunity. *See College Sav. Bank*, 948 F. Supp. at 413. However, Florida Prepaid argues that the *Seminole Tribe* decision limiting the scope of Congress' powers to abrogate a state's Eleventh Amendment immunity renders the TRCA unconstitutional as applied in this case. We agree with this contention.

1. The *Seminole Tribe* Decision

In *Seminole Tribe*, the Court set forth a clear two-part standard of how Congress could abrogate the Eleventh Amendment immunity of states. *See id.* at 1123. The Court said that to find if there has been an abrogation a court must answer two questions affirmatively: "first, whether Congress has `unequivocally expresse[d] its intent to abrogate the immunity,' and second, whether Congress has acted `pursuant to a valid exercise of power.'" *Id.* (citations omitted).

a. Legislative Intent

Under the first question posed by *Seminole Tribe*, Congress must evidence an intent to abrogate the states' immunity from suit in federal court through a "clear legislative statement." *Id.* (quoting *Blatchford v. Native Village of Noatak*, 501 U.S. 775, 786, 111 S.Ct. 2578, 2584 (1991)). The TRCA surely manifests that intent. Section 1122, entitled "Liability of States, instrumentalities of States and State officials" provides:

> (a) Any State, instrumentality of a State or any officer or employee of a State or instrumentality of a State acting in his or her official capacity, shall not be immune, under the eleventh amendment of the Constitution of the United States or under any other

> doctrine of sovereign immunity, from suit in Federal court by any person, including any governmental or nongovernmental entity for any violation under this chapter.
>
> (b) In a suit described in subsection (a) of this section for a violation described in that subsection, remedies (including remedies both at law and in equity) are available for the violation to the same extent as such remedies are available for such a violation in a suit against any person other than a State, instrumentality of a State, or officer or employee of a State or instrumentality of a State acting in his or her official capacity. . . .

15 U.S.C. § 1122. This language manifests Congress' unambiguous intent to abrogate the states' immunity. Therefore, the TRCA meets the first requirement of *Seminole Tribe* to find that Congress has abrogated the states' immunity.

b. Valid Exercise of Power

The second prong of *Seminole Tribe* requires that Congress act pursuant to a valid exercise of power. Prior to *Seminole Tribe*, the Supreme Court had determined that there were only two constitutional bases for Congress validly to abrogate the states' Eleventh Amendment immunity. First, in *Fitzpatrick v. Bitzer*, 427 U.S. 445, 96 S.Ct. 2666 (1976), the Court found that Congress could act pursuant to section five of the Fourteenth Amendment to abrogate states' immunity under the Eleventh Amendment. The Court reasoned that Congress had this power because the Fourteenth Amendment "had fundamentally altered the balance of state and federal power struck by the Constitution." *Seminole Tribe*, 116 S.Ct. at 1125.

Second, in *Pennsylvania v. Union Gas Co.*, 491 U.S. 1, 109 S.Ct. 2273 (1989), "a plurality of the Court found that the Interstate Commerce Clause, Art. I, § 8, cl. 3, granted Congress the power to abrogate state sovereign immunity." *Seminole Tribe*, 116 S.Ct. at 1125. In *Seminole Tribe*, the Court was asked to find a third basis of authority for Congress to abrogate the states' Eleventh Amendment immunity – the Indian Commerce Clause. *See* U.S. Const. Art. 1, § 8, cl. 3. The Court held that the Indian Commerce Clause did not provide a basis for Congress to exercise that power. In fact, the Court overruled *Union Gas* by determining that the Commerce Clause itself did not provide a basis for Congress to abrogate the states' immunity under the Eleventh Amendment. *See Seminole Tribe*, 116 S.Ct. at 1128. Thus, since *Seminole Tribe* section five of the Fourteenth Amendment has been the sole basis for Congress to abrogate the states' immunity under the Eleventh Amendment. Accordingly, to meet the second prong of the *Seminole Tribe* test, the TRCA must have been enacted pursuant to this power.

2. The Fourteenth Amendment and the TRCA

The legislative history of the TRCA does not delineate conclusively the constitutional basis for its enactment. The only mention of Fourteenth Amendment authority is found in a brief notation in a Senate Report. *See* S. Rep. No. 102-280, at 8 (1992), *reprinted in* 1992 U.S.C.C.A.N. 3087, 3094 (stating that the TRCA "is justified under the Commerce Clause and the Fourteenth Amendment."). Yet this failure to explain fully the constitutional justification for its enactment does not invalidate the TRCA, for Congress is not required to discuss or explain explicitly the constitutional basis for laws that it enacts. *See, e.g., FCC v. Beach Communications, Inc.*, 508 U.S. 307, 315, 113 S.Ct. 2096, 2102 (1993) (holding that

a legislature is"never require[d] . . . to articulate its reasons for enacting a statute"); *EEOC v. Wyoming*, 460 U.S. 226, 243-44 n.18, 103 S.Ct. 1054, 1064 n.18 (1983).[3]

Furthermore, as the Court recently has stated, congressional enactments are accorded a "presumption of validity," because "[i]t is for Congress in the first instance to `determin[e] whether and what legislation is needed to secure the guarantees of the Fourteenth Amendment,' and its conclusions are entitled to much deference." *City of Boerne v. Flores*, 117 S.Ct. 2157, 2172 (1997) (quoting *Katzenbach v. Morgan*, 384 U.S. 641, 651, 86 S.Ct. 1717, 1723-24 (1966)). However, "Congress' discretion is not unlimited" and courts must ensure that congressional acts do not overstep the boundaries of the Fourteenth Amendment. *Id.* at 2172. Therefore, while the brief statement of the constitutional foundation for the TRCA in the Senate Report is entitled to deference, it does not establish that the TRCA is constitutional. Consequently, we are obliged to examine the scope of the Fourteenth Amendment and determine whether the TRCA is valid under the amendment's enforcement section.

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[3] The Court in *EEOC v. Wyoming* stated:

> It is in the nature of our review of congressional legislation defended on the basis of Congress' powers under § 5 of the Fourteenth Amendment that we be able to discern some legislative purpose or factual predicate that supports the exercise of that power. That does not mean, however, that Congress need anywhere recite the words 'section 5' or 'Fourteenth Amendment' or 'equal protection for '[t]he . . . constitutionality of action taken by Congress does not depend on recitals of the power which it undertakes to exercise.'

460 U.S. at 243-44 n.18, 103 S.Ct. at 1064 n.18 (citations omitted) (quoting *Woods v. Cloyd W. Miller Co.*, 333 U.S. 138, 144, 68 S.Ct. 421, 424 (1948)).

The Due Process Clause of Fourteenth Amendment provides that no state shall "deprive any person of life, liberty, or property, without due process of law." U.S. CONST. amend. 14, § 1. Section five of the Fourteenth Amendment gives Congress the power "to enforce, by appropriate legislation, the provisions of this article." U.S. CONST. amend. 14, § 5. The Court long has recognized that Congress' power to legislate under section five is quite broad:

> Whatever legislation is appropriate, that is, adapted to carry out the objects the amendments have in view, whatever tends to enforce submission to the prohibitions they contain, and to secure to all persons the enjoyment of perfect equality of civil rights and the equal protection of the laws against State denial or invasion, if not prohibited, is brought within the domain of congressional power.

Ex Parte Virginia, 100 U.S. 339, 345-46 (1879). However, Congress' power under section five of the Fourteenth Amendment is not without boundaries. As the Court held in *Oregon v. Mitchell*, 400 U.S. 112, 91 S.Ct. 260 (1970):

> As broad as the congressional enforcement power is, it is not unlimited. Specifically, there are at least three limitations upon Congress' power to enforce the guarantees of the Civil War Amendments. First, Congress may not by legislation repeal other provisions of the Constitution. Second, the power granted to Congress was not intended to strip the States of their power to govern themselves . . . . Third, Congress may only 'enforce' the provisions of the amendments and may only do so by 'appropriate legislation.'

400 U.S. at 128-29, 91 S.Ct. at 266-67. The Court also recently has cautioned that "Congress does not enforce a constitutional right by changing what the right is. It has been given the power 'to enforce,' not the power to determine what constitutes a constitutional violation." *City of Boerne*, 117 S.Ct. at 2164. Therefore, while Congress has broad remedial power under the Fourteenth Amendment, it does not have a basis for enacting substantive, non-remedial measures.

Because of this limitation, for a law to be a valid mechanism to enforce the Due Process Clause, it must not create new substantive rights, but instead must provide a method of protecting against violations of those rights already extant. The Due Process Clause itself sets out the boundaries of what rights it protects: the conduct must involve action by a state; it must deprive an individual of life, liberty or property; and the deprivation must occur without due process of law. These three requirements are at the core of what the TRCA must remedy to be valid under the Fourteenth Amendment.

However, for the TRCA to be a valid enforcement of the Due Process Clause under section five, it does not need to protect only against constitutional violations. Rather, the TRCA can serve the broader purposes of the Due Process Clause. The Court in *City of Boerne*, reiterated this notion: 'Legislation [enacted under section five of the Fourteenth Amendment] which deters or remedies constitutional violations can fall within the sweep of Congress' enforcement power even if in the process it prohibits conduct which is not itself unconstitutional and intrudes into 'legislative spheres of autonomy previously reserved to the States.'" *Id.* at 2163 (quoting *Fitzpatrick v. Bitzer*, 427 U.S. at 455, 96 S.Ct. at 2671). Yet even though the violations against which it protects do not have to rise to the level of constitutional

violations, the TRCA must further the goals of protecting property from state action undertaken without due process of law, because the congressional enforcement power under the Fourteenth Amendment is not unlimited. *See City of Boerne*, 117 S.Ct. at 2163.

In deciding that the TRCA is not valid as applied in this case under the Fourteenth Amendment, the district court concluded that the case did not involve a property right; therefore, the TRCA did not further the purposes of the Fourteenth Amendment. *See College Sav. Bank*, 948 F. Supp. at 426-28. The district court first determined that the false advertising prong of the Lanham Act invoked by CSB "essentially protects the 'right to be free from false advertising.'" *Id.* at 426. This right, according to the district court, was not property for purposes of the Fourteenth Amendment; in fact, the district court could notfind any precedent "even discussing whether the right to be free of unfair competition is 'property.'" *Id.* at 426-27 n.27. The district court indicated that "we are unaware of any authority suggesting that Congress may, by simple fiat, abruptly declare that a simple statutory cause of action, which traditionally has not been understood to involve any kind of property, now encompasses a 'property right' to which the Fourteenth Amendment applies." *Id.* at 427. Therefore, according to the district court, because a property right was not involved, Congress did not have the power under the Fourteenth Amendment to enact the TRCA as it applied to this case.

In our examination of the TRCA, we, too, focus on the question of whether the TRCA protects a property right recognized under the Fourteenth Amendment. The tort of unfair competition created by the Lanham Act protects against certain harms involving improper interference with business prospects. *See* 15 U.S.C. § 1127; *see also AT & T Co. v.*

Winback and Conserve Program, Inc., 42 F.2d 1421, 1428 (3d Cir. 1994) (noting that the Lanham Act contains language that "'creates a federal cause of action for unfair competition.'") (citations omitted). CSB contends that this tort of unfair competition protects intangible property rights; therefore, the TRCA should be n to protect property as defined under the Fourteenth Amendment. The tort of unfair competition found in the Lanham Act does protect some intangible property rights, but no such intangible property is involved in the present case. *See* W. Page Keeton et al., *Prosser and Keeton on the Law of Torts* § 130, at 1015 (5th ed. 1984) (citing trade marks, copyrights, and patents as intangible property rights that the tort of unfair competition involves). Instead, CSB's Lanham Act claim concerns allegedly false statements about a competitor's own product. The only cognizable property right that could be involved would be a right to be free of false advertising, a right that is not an intangible property right protected under the Fourteenth Amendment.

The Supreme Court has recognized that the Fourteenth Amendment protects some categories of intangible property rights. *See, e.g., Tulsa Prof 'l Collection Ser v. Pope*, 485 U.S. 478, 485, 108 S.Ct. 1340, 1345 (1988) (in recognizing an unsecured claim against the estate, the Court wrote: "Little doubt remains that such an intangible interest is protected by the Fourteenth Amendment."); *Logan v. Zimmerman Brush Co.*, 455 U.S. 422, 430, 102 S.Ct. 1148, 1155 (1982) ("[T]he types of interests protected as 'property' are varied and, as often as not, intangible, relating 'to the whole domain of social and economic fact.'") (citations omitted); *Paul v. Davis*, 424 U.S. 693, 710, 96 S.Ct. 1155, 1165 (1976) ("[T]here exists a variety of interests which are difficult of definition but are nevertheless comprehended within the meaning of either 'liberty' or 'property' as meant in the Due Process Clause.").

However, not all intangible rights have been deemed to be property under the Fourteenth Amendment, *see Paul v. Davis*, 424 U.S. at 712, 96 S.Ct. at 1166 (holding that a person's reputation was not intangible property covered by Fourteenth Amendment), and the right to be free from unfair advertising is not one of the protected property interests. While infringement on such a right might give rise to a cause of action, the right does not amount to "property" within the meaning of the Fourteenth Amendment.[4]

We also reject CSB's contention that the TRCA necessarily involves a protected property right under the Fourteenth Amendment on the basis that it attempts to protect businesses from harm. Clearly, a business is an established property right entitled to protection under the Fourteenth Amendment. *See, e.g., Duplex Printing Press Co. Deering*, 254 U.S. 443, 465, 41 S.Ct. 172, 176 (1920) (finding that a "business . . . is a property right, entitled to protection against unlawful injury or interference .. ."); *United States v. Tropiano*, 418 F.2d 1069, 1076 (2d Cir. 1969) ("The right to pursue a lawful business including the solicitation of

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[4] CSB asserts that the Supreme Court recognized that the tort of unfair competition involved protected intangible property rights in *International News Serv. v. Associated Press*, 248 U.S. 215, 236, 39 S.Ct. 68, 71 (1918) ("[T]he right to acquire property by honest labor or the conduct of a lawful business is as much entitled to protection as the right to guard property already acquired. . . . It is this right that furnishes the basis of the jurisdiction in the ordinary case of unfair competition.") (citations omitted). However, the quoted language concerned the question of whether the courts should exercise equity jurisdiction over the dispute; the Court needed to determine if a right sufficient to sustain such jurisdiction had been violated and if a harm had occurred. Thus, while the opinion does discuss property rights and the tort of unfair competition, the Court did not determine whether the tortious actions injured a property right worthy of protection under the Fourteenth Amendment. The Court merely determined that an injury to a specific right had occurred.

customers necessary to the conduct of such business has long been recognized as a property right within the protection of the Fifth and Fourteenth Amendments to the Constitution.") (citations omitted); *Small v. United States*, 333 F.2d 702, 704 (3d Cir. 1964) ("The right to pursue a lawful business or occupation is a right of property which the law protects against intentional and unjustifiable interference. A cause of action based upon such an interference is analogous to one based upon unlawful interference with existing contracts, and is governed by the same principles.") (citations omitted). Nevertheless, while a business is a property right, the fact that CSB operates a business does not lead necessarily to the conclusion that the TRCA as applied in this case protects property rights.

For instance, in *Gentry v. Howard*, 365 F. Supp. 567 (W.D. La. 1973), an operator of an ambulance service sued the mayor of the City of Monroe in part on due process grounds, because the city began operating a competing ambulance service. The district court held that this action by the city did not amount to a due process violation, because no deprivation of property had occurred, within the meaning of the Fourteenth Amendment. Even though the city clearly was competing with the private business which suffered from this competition, this harm did not rise to the level of a deprivation of property under the Fourteenth Amendment. *See also Hegeman Farms Corp. v. Baldwin*, 293 U.S. 163, 170, 55 S.Ct. 7, 9 (1934) ("The Fourteenth Amendment does not protect a business against the hazards of competition."); *cf. Reich v. Beharry*, 883 F.2d 239, 242 (3d Cir. 1989) ("Every breach of contract by someone acting under color of state law [does not] constitute [ ] a deprivation of property for procedural due process purposes."). As *Gentry* illustrates, just because the state's actions impact on a private business does

not mean that this action somehow infringes on the Fourteenth Amendment rights of the private individual.

If a state's conduct impacting on a business always implicated the Fourteenth Amendment, Congress would have almost unrestricted power to subject states to suit through the exercise of its abrogation power. Congress could pass any law that tangentially affected the ability of businesses to operate and then create causes of action against the states in federal court if they infringed on those federally created rights. This result would be unacceptable and would conflict directly with the strict limits on Congress' powers to abrogate a state's Eleventh Amendment immunity. Thus, because this case does not involve a property interest protected by the Fourteenth Amendment, the TRCA, as applied in this case, is an unconstitutional exercise of Congress' powers.

We carefully have confined our discussion by holding that the TRCA is unconstitutional as applied "in this case." We have done so for two reasons. First, as the district court correctly noted, the false advertising prong of the Lanham Act implicated in this litigation is "separate and distinct from the trademark infringement prong." *College Sav. Bank*, 948 F. Supp. at 426 n.25. Second, the false advertising prong of the Lanham Act not only proscribes misrepresentations regarding a person's own goods or services, but it also forbids misrepresentations about a competitor's goods or services. 11 U.S.C. § 1125 (a)(1)(B). Since the present case only involves allegations that Florida Prepaid misrepresented its own product, the second part of the false advertising prong is not implicated. Therefore, because the scope of the allegations in this case is so narrow, we express no opinion as to whether the TCRA may be applied constitutionally in a case involving a trademark infringement or involving a misrepresentation about a competitor's goods or services.

C. Constructive Waiver of Eleventh Amendment Immunity

CSB also contends that Florida Prepaid has constructively waived its Eleventh Amendment immunity on two different grounds: the *Parden* doctrine and the conduct of Florida Prepaid in this litigation. We reject each of these arguments.

1. The *Parden* Doctrine

The high point of Supreme Court jurisprudence of the doctrine of constructive consent was *Parden v. Terminal Ry. of Ala. State Docks Dep't*, 377 U.S. 184, 84 S.Ct. 1207. *See* Erwin Chemerinsky, *Federal Jurisdiction* 408 (2d ed. 1994). In *Parden*, railroad workers sued a railroad, wholly owned and operated by the State of Alabama, to recover damages under the Federal Employers' Liability Act ("FELA"). *See* 377 U.S. at 184-85, 84 S.Ct. at 1209. Alabama defended the suit on the basis of the Eleventh Amendment. The Court focused on two questions: whether Congress intended the FELA to apply to the states, and whether it had the power to do so. First, by its language, the FELA applied to "every" common carrier. *Id.* at 187, 84 S.Ct. at 1210. The Court held that because Congress did not distinguish between state and privately operated common carriers, Congress must have intended the Act to apply to state operated common carriers. Turning to the second question, the Court held that the constitutional basis for the enactment of FELA was the Interstate Commerce Clause. *See id.* at 190-91, 84 S.Ct. at 1211-12. The Court then reasoned that because "the States surrendered a portion of their sovereignty when they granted Congress the power to regulate commerce," the clause could be used as a basis to waive a state's Eleventh Amendment immunity. *Id.* at 191, 84 S.Ct. at 1212. Because Alabama voluntarily had operated the railroad after the enactment of FELA, the Court held that the state had consented to the suit

in federal court under the Act. *See id.* at 192, 84 S.Ct. at 1213. Therefore, Alabama was deemed to have waived its Eleventh Amendment immunity in *Parden*.

In the years following *Parden*, the Court has modified and partially overruled it. The first significant modification occurred in *Employees of the Dep't of Pub. Health & Welfare v. Dep't of Pub. Health & Welfare*, 411 U.S. 279, 93 S.Ct. 1614 (1973). That case involved a suit by state hospital and training school employees for overtime compensation under the Fair Labor Standards Act ("FLSA"). *See id.* at 280-81, 93 S.Ct. at 1616. The State of Missouri defended the suit on Eleventh Amendment grounds, and the Court applied the same two-part test found in *Parden*. First, it found that Congress clearly intended to bring employees of "hospitals and related institutions" under the Act. *Id.* at 283, 93 S.Ct. at 1617. Second, the Court recognized that the basis for the enactment of the FLSA was the Interstate Commerce Clause. *See id.* at 282, 93 S.Ct. at 1617. However, the Court distinguished *Parden* from *Employees*. The Court explained that the State of Alabama in *Parden* was involved in an "area where private persons and corporations normally ran the enterprise." *Id.* at 284, 93 S.Ct. at 1617. In *Employees* the institutions were state hospitals and training schools which were not operated for profit, and instead were of an integral state concern. *See id.* Because of their importance to the state government, the Court found that Congress could not abrogate Missouri's Eleventh Amendment immunity under the FLSA in that case. In *Employees*, therefore, the Court created the important government function exception to *Parden*. Under this exception, a state cannot be deemed to have waived its immunity if it is engaged in an important or core government function.

The Court restricted the scope of *Parden* further in *Edelman v. Jordan*, 415 U.S. 651, 94 S.Ct. 1347 (1974). In challenging Illinois' administration of the Aid to the Aged, Blind, and Disabled ("AABD") welfare program, the plaintiffs in that class action asserted that officials from the State of Illinois had waived the state's Eleventh Amendment immunity in welfare suits by participating in and receiving funds from the federal welfare program. Stressing that "[c]onstructive consent is not a doctrine commonly associated with the surrender of constitutional rights," the Court held that "[t]he mere fact that a State participates in a program through which the Federal Government provides assistance for the operation by the State of a system of public aid is not sufficient to establish consent on the part of the State to be sued in the federal courts." *Id.* at 673, 94 S.Ct. at 1360-61. Thus, the Court rejected the waiver argument in that case.

In 1987, the Court again pared back *Parden* in *Welch v. Texas Dep't of Highways and Pub. Transp.*, 483 U.S. 468, 107 S.Ct. 2941. In *Welch*, an employee of the Texas Department of Highways and Public Transportation filed suit under the Jones Act against the state and the department to recover damages for injuries she incurred while working on a ferry dock. *See id.* at 470-71, 107 S.Ct. at 2944. The Jones Act remedies were available to "[a]ny seaman who shall suffer personal injury in the course of his employment." The employee argued that the State of Texas was an employer within this section. *Id.* at 475, 107 S.Ct. at 2947. In considering whether Congress intended to apply the Act to the states, the Court found that the line of cases it had decided since *Parden* "required an unequivocal expression that Congress intended to override Eleventh Amendment immunity. Accordingly, to the extent that Parden v. Terminal Railway, . . . is inconsistent with the requirement that an abrogation of Eleventh Amendment immunity by Congress

must be expressed in unmistakably clear language, it is overruled." *Id.* at 478, 107 S.Ct. at 2948 (citations omitted). Thus, the Court changed the first prong of the *Parden* test to require a clear statement of congressional intent. Because it found no such intent in the Jones Act, the Court declined to hold that Texas had waived its immunity.

Therefore, the *Parden* doctrine holds that a state's Eleventh Amendment immunity can be constructively waived if: (1) Congress enacts a law providing that a state will be deemed to have waived its Eleventh Amendment immunity if it engages in the activity covered by the federal legislation; (2) the law does so through a clear statement that gives notice to the states; (3) a state then engages in that activity covered by the federal legislation; and (4) the activity in question is not an important or core government function.

In the present case, at least assuming that CSB can establish the elements of its case, the first three requirements of the *Parden* doctrine clearly have been or will be met. Although the TRCA does not mention specifically prepaid tuition programs, the Act declares that if a state or its instrumentality chooses to engage in a proprietary activity that potentially falls under the Lanham Act, it can be held liable in federal court for violations of that Act. *See* 15 U.S.C. § 1122. Moreover, Florida Prepaid continued its operations after the enactment of the TRCA. However, even though the first three requirements may be met, if the important government function exception applies to the present case, Florida Prepaid's activities would not waive its Eleventh Amendment immunity.

The district court determined that Florida Prepaid served a "role traditionally undertaken by state governments – making available education opportunities," and thus the *Parden* doctrine could not be applied as a basis for a

conclusion that Florida Prepaid's activities waived its Eleventh Amendment immunity. *College Sav. Bank*, 948 F. Supp. at 416. The district court recognized that Florida Prepaid does compete with private businesses, such as CSB, to provide prepaid tuition plans, but found that factor not to be dispositive. Instead, the district court focused on the benefits that Florida Prepaid provides to the education of Florida citizens. *See id.* at 417. Because Florida Prepaid directly furthers the goal of education by providing a system of financing for college and university education, the district court found that Florida Prepaid serves an important government function. We agree with the district court's determination and conclude that Florida Prepaid is engaged in an important governmental function; therefore, the *Parden* doctrine of waiver does not apply to the present case.

Education is a core function of a state government. *See Brown v. Board of Educ.*, 347 U.S. 483, 493, 74 S.Ct. 686, 691 (1954) ("Today, education is perhaps the most important function of state and local governments."). The Appellants do not dispute that education is an important government function. Instead, they seek to distinguish the goal of education from the function that Florida Prepaid performs. They argue that Florida Prepaid does not provide education directly; instead, it provides a means through which individuals can save for the costs of college tuition with an investment program. According to the Appellants, individuals traditionally have used a variety of investments to fulfill this purpose, and Florida Prepaid can be seen as merely an additional, competing means to meet the costs of college.

We reject the Appellants' narrow conception of education as a core government function. Education encompasses more than classroom teaching; instead, the core function of education can include the provision of education-related

services as well as direct classroom teaching. *See, e.g., Skehan v. State Sys. of Higher Educ.*, 815 F.2d 244, 249 (3d Cir. 1987) (holding that the Pennsylvania State System of Higher Education is a state agency entitled to Eleventh Amendment immunity). Furthermore, in addition to states providing elementary and secondary schools for their citizens, they also long have provided facilities for college and graduate levels of education. In providing these higher levels of education, states routinely have charged discounted tuition fees to their own citizens. Yet even with such discounts, the cost of education can be prohibitive. The sole purpose of Florida Prepaid is to help individuals meet this expense of higher education. *See* Fla. Stat. ch. 240.551(1) (1997). As the statute creating the Florida Prepaid Postsecondary Education Expense Program states:

> The Legislature recognizes that education opportunity at the postsecondary level is a critical state interest. it further recognizes that educational opportunity is best ensured through the provision of postsecondary institutions that are geographically and financially accessible. Accordingly, it is the intent of the Legislature that a program be established through which many of the costs associated with postsecondary attendance may be paid in advance . . . .

Id.

Although private businesses such as CSB operate similar programs, Florida Prepaid nevertheless serves the goal of ensuring that higher education is affordable to all of its citizens. Merely because the state competes with private enterprises does not mean that it is not performing a core government function. For instance, even in the context of classroom education, private schools operate on a competitive

basis with public schools on all levels: elementary, high school, and university.

The Florida legislature specifically authorized and created Florida Prepaid to facilitate the education of its citizens. The core government function of education does not necessarily only embody the actual teaching of individuals; it is a broader function which can incorporate actions that involve related aspects to this overall goal.[5] Florida Prepaid serves the important government interest of education by making it affordable to its citizens; therefore, the *Parden* doctrine does not apply to the present case and does not supply a basis for a conclusion that Florida Prepaid has waived its Eleventh Amendment immunity.

As we have indicated, Florida Prepaid has argued and the district court has held that *Seminole Tribe* implicitly overruled *Parden*. *See College Sav. Bank*, 948 F. Supp. at 420. We, however, do not reach this difficult question because we have no need to do so. In our view, a court of appeals should be reluctant to hold that the Supreme Court implicitly has

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[5] In addressing a similar issue, the Court of Appeals for the Sixth Circuit has decided that an educational trust fund operated by the State of Michigan performs a public function. *See Michigan v. United States*, 40 F.3d 817 (6th Cir. 1994). The Michigan Educational Trust is a state agency created to enter into advance tuition payment contracts with individuals to provide tuition prepayments for college education. *See id.* at 820-21. In determining whether the entity is subject to tax by the United States, the court of appeals concluded that:

> [E]ncouraging higher education by helping provide the means for attendance at Michigan's public colleges and universities – the basic function for which the education trust was established by the Michigan legislature – is at least as much a 'public function' as building and operating bridges and tunnels.

Id. at 825. Based on this conclusion, the court held that the entity has tax-exempt status. *See id.* at 829.

overruled its own decision when the Court had an opportunity to overrule the decision explicitly and did not do so. Thus, we view our methodology as in keeping with the respect which we must pay to the Supreme Court.

2. Waiver of Immunity by Conduct in Litigation

Finally, CSB contends that Florida Prepaid has waived its Eleventh Amendment immunity through its appearance in this litigation, by filing a counterclaim, and by failing initially to raise its Eleventh Amendment immunity defense. The district court rejected this argument and found that Florida Prepaid did not waive its immunity defense. *See College Sav. Bank*, 948 F. Supp. at 414. We will affirm the district court's determination of this matter and hold that Florida Prepaid raised its defense in a timely manner.

A state can waive an Eleventh Amendment immunity defense through a voluntary appearance in litigation against it in federal court. *See Clark v. Barnard*, 108 U.S. 436, 447-48, 2 S.Ct. 878, 883 (1883). In determining whether there has been a waiver, courts have examined the extent to which a state has participated in the lawsuit and whether it has defended the case on its merits. *See Fordyce v. Seattle*, 55 F.3d 436, 441 (9th Cir. 1994) (holding that a state could waive immunity by a voluntary appearance and defense on the merits); *Hankins v. Finnel*, 964 F.2d 853, 856 (8th Cir. 1992) (recognizing the possibility of waiver through an appearance and defense on the merits); *995 Fifth Ave. Assoc., L.P. v. New York State Dep't of Taxation and Fin.*, 963 F.2d 503, 507-08 (2d Cir. 1992) (holding New York's immunity to be waived through its participation in the lawsuit); *Paul N. Howard Co. v. Puerto Rico Aqueduct Sewer Auth.*, 744 F.2d 880, 886 (1st Cir. 1984) (finding a waiver of immunity by a party's appearance and filing of a counterclaim and a third-party complaint); *Vecchione v. Wohlgemuth*, 558 F.2d

150, 158-59 (3d Cir. 1977) (holding a state to have waived immunity by not raising the issue until after the final judgment).

Florida Prepaid's participation in this litigation did not waive its Eleventh Amendment immunity. Because the immunity issue "sufficiently partakes of the nature of a jurisdictional bar," *Edelman v. Jordan*, 415 U.S. at 678, 94 S.Ct. at 1363, it is an issue that may be raised at any time during the pendency of the case. *See Florida Dep't Of State v. Treasure Salvors, Inc.*, 458 U.S. 670, 683 n.18, 102 S.Ct. 3304, 3314 n.18 (1982). Merely because a state appears and offers defenses on the merits of the case, it does not automatically waive Eleventh Amendment immunity. *See id.*; *see also Ford Motor Co. v. Dep't of Treasury of State of Ind.*, 323 U.S. 459, 466-67, 65 S.Ct. 347, 351-52 (1945) (considering Eleventh Amendment immunity for the first time on appeal); *Mascheroni v. Board of Regents of the Univ. of Cal.*, 28 F.3d 1554, 1560 (10th Cir. 1994) (holding that a state does not waive immunity merely by its appearance in a suit).

The critical reason behind Florida Prepaid's delay in asserting an Eleventh Amendment defense was the timing of the Supreme Court's decision in *Seminole Tribe*. At the beginning of the litigation, the abrogation rule of *Union Gas* precluded an Eleventh Amendment immunity defense by Florida Prepaid.[6] However, with *Seminole Tribe*, the

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[6] The constitutionality of the TRCA was not in question prior to *Seminole Tribe*, because the TRCA and the underlying Lanham Act had clear foundations in the Commerce Clause. *Union Gas* had permitted Congress to abrogate states' immunity to suit in federal court on Commerce Clause grounds. With *Seminole Tribe*, this basis was eliminated and the only foundation for abrogation by Congress is section five of the Fourteenth Amendment.

successful assertion by Florida Prepaid of an immunity defense became a reasonable possibility. Therefore, following that decision, Florida Prepaid asserted its Eleventh Amendment immunity.[7] Given this change in the law and the precedent for allowing participation in lawsuits without waiving the immunity, we determine that Florida Prepaid did not waive its Eleventh Amendment immunity through its participation in this litigation.

IV. CONCLUSION

We will affirm the district court's dismissal of CSB's Lanham Act claim by order entered December 16, 1996. Although congressional actions are entitled to much deference, Congress cannot usurp the powers of the states. The Supreme Court in *Seminole Tribe* placed clear limitations on Congress' power to abrogate a state's Eleventh Amendment immunity; the TRCA exceeds these restrictions as applied to the present case, and thus we conclude that it is unconstitutional. Furthermore, we will affirm the district court's determination that Florida Prepaid did not waive its immunity either under *Parden* or through its participation in this litigation. Therefore, because the Eleventh Amendment applies to bar this lawsuit against Florida Prepaid in federal court, we will affirm the district court's dismissal of CSB's Lanham Act suit in its entirety.

A True Copy:
Teste:

Clerk of the United States Court of Appeals
for the Third Circuit

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[7] The Supreme Court decided *Seminole Tribe* on March 27, 1996. Florida Prepaid first informed the district court of its intention to move for dismissal on Eleventh Amendment grounds on April 8, 1996. *See* Appellee's br. at 39 n.16.

APPENDIX B

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF NEW JERSEY

COLLEGE SAVINGS BANK,

Plaintiff,

and

UNITED STATES OF AMERICA,

Intervenor-Plaintiff,

-v-

FLORIDA PREPAID POSTSECONDARY
EDUCATION EXPENSE BOARD,

Defendant.

Civ. No. 95-4516 (GEB), Civ. No. 94-5610 (GEB)
December 13, 1996, Decided

MEMORANDUM OPINION

GARRETT E. BROWN, JR., District Judge

This matter comes before the Court on the motions of defendant, Florida Prepaid Postsecondary Education Expense Board, to dismiss plaintiff's Patent Act Claim (Civ. No. 94-5610) and Lanham Act Claim (Civ. No. 95-4516) pursuant to FED. R. CIV. P. 12(h)(3). For the reasons set forth herein, the Court will grant defendant's motion to dismiss the Lanham Act Claim and deny defendant's motion to dismiss the Patent Act Claim.

I. BACKGROUND

A. The Parties

Plaintiff College Savings Bank ("CSB") is a New Jersey chartered savings bank located in Princeton, New Jersey. CSB alleges that since September, 1987, it has engaged in the business of selling CollegeSure® CD, a deposit contract administered according to a patented method and intended to provide a return adequate to satisfy college education expenses, even though those expenses are presently unknown.[1] *See* Patent Act Compl. ¶ 3.

Defendant Florida Prepaid Postsecondary Expense Board ("Florida Prepaid") is a body corporate of the State of Florida, created by FLA. STAT. at 240.551 to manage and operate the Florida Prepaid Postsecondary Education Expense Program

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[1] U.S. Patent No. 4,722,055 ("the '055 patent") was granted to CSB on January 26, 1988. The '055 patent, entitled "Methods and Apparatus for Funding Liability of Uncertain Costs," provides a method "for implementing an insurance investment program which provides an investor a future return adequate to pay the cost of a college education for his beneficiary (*e.g.*, a child, grandchild, etc.) in return for a present investment determined on the basis of current college cost data and projections of the rate of increase of college costs." See The '055 Patent-Summary of the Invention, attached to Plaintiff's Patent Act Complaint as Exh. A.

(the "Program").[2] Like CSB, Florida Prepaid agrees to provide a return for the money invested that is guaranteed to be adequate to meet payouts required to fund the uncertain cost of a college education at specified dates in the future.[3] Florida Prepaid has administered a tuition prepayment program since September, 1988.

B. The Claims

1. The Patent Act Claim

On November 7, 1994, CSB brought an action against Florida Prepaid for allegedly infringing CSB's '055 patent. Specifically, CSB avers, in pertinent part, that:

> 6. Defendant Florida Prepaid has been and still is directly infringing, actively inducing the infringement of, or contributing to the infringement of, the '055 patent by making, using, or selling in this Judicial District and elsewhere, contracts

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[2] The Program is open to "qualified beneficiaries," defined to be:

(1) a resident of Florida at the time a purchaser enters into an advance payment contract on behalf of the resident;

(2) a non-resident who is the child of a non-custodial parent who is a resident of Florida at the time such parent enters into an advance payment contract on behalf of the child; or

(3) a graduate of an accredited high school in Florida who is a resident of Florida at the time he/she is designated to receive the benefits of the advance payment contract. FLA. STAT. § 240.551(2)(e)(1)-(3).

[3] Tuition for Florida State postsecondary education institutions is controlled by the Florida Legislature. Pursuant to FLA. STAT. § 240.209 and § 240.35, tuition is set by the State Board of Regents or the State Board of Community Colleges. *See* Declaration of William W. Montjoy ¶ 28, submitted in support of Florida Prepaid's Motion to Dismiss Plaintiff's Patent Act and Lanham Act Claims ("Montjoy Decl.").

> administered in accordance with a method to provide a return adequate to meet payouts for funding the uncertain cost of a college education at a future date.
>
> 7. Defendant Florida Prepaid with actual knowledge of the '055 patent, with knowledge of its infringement, and without lawful justification, has willfully infringed the '055 patent.

Patent Act Compl. ¶¶ 6-7. Thus, CSB contends that the manner in which Florida Prepaid performs its obligations under its college prepayment contracts – that is, the data processing apparatus and methods that Florida Prepaid uses – directly infringes CSB's patent under 35 U.S.C. at 271.

2. The Lanham Act Claim

On August 25, 1995, CSB filed a complaint against Florida Prepaid alleging violations of Section 43(a) of the Lanham Act, 15 U.S.C. at 1125(a), and the common law tort of unfair competition. CSB asserts that its efforts to sell investment contracts have been hurt by "false and misleading claims that Florida Prepaid has made in its promotional materials." Lanham Act Compl. ¶ 11. Specifically, CSB alleges that defendant falsely represented the Florida Prepaid program in the following respects: (1) that the State of Florida guarantees all contract beneficiaries to have the full amount necessary to fund a college education at a participating college or university, *id.* ¶ 14; (2) that any tax liability on a Florida Prepaid contract is deferred until the student reaps the benefits of the contract, *i.e.*, is enrolled at college, *id.* ¶ 22; (3) that Florida Prepaid's investments are backed by the "full faith and credit" of the United States, *id.* ¶¶ 30-32; and (4) that defendant failed to disclose, in its 1995 Annual Report, the existence of CSB's patent infringement action against it. *Id.* ¶¶ 37-39.

3. The Counterclaims

In response to CSB's Patent Act Claim, Defendant filed a counterclaim seeking a declaration from this Court that CSB's '055 patent is invalid, unenforceable, and void. Moreover, with respect to plaintiff's Lanham Act Claim, defendant filed counterclaims alleging defamation, product disparagement and trade libel. These counterclaims are centered on a statement made by Peter Roberts, the President and Chief Financial Officer of CSB, as quoted and printed in the September 13, 1995 edition of the Miami Daily Business Review, shortly after CSB filed the Lanham Act Claim. Commenting on the representations Florida Prepaid makes in the promotion of its deposit contract program, Mr. Roberts stated: "At best those claims are half-truths, and at worst they're outright lies." *See* Stan Yabaro, PREPAID COLLEGE PLAN FACES NEW SUIT FROM RIVAL, MIAMI DAILY BUS. REV., Sept. 13, 1995, at A1, A7, attached to Florida Prepaid's Lanham Act Answer, Affirmative Defenses and Counterclaims as Exh. C.

C. Procedural History

On March 23, 1995, Florida Prepaid filed a motion to dismiss the Patent Act Claim or, in the alternative, to transfer the action to the Northern District of Florida. Defendant alleged that CSB's Patent Act Claim failed to state a claim actually using or selling the method patented by CSB. *See* Florida Prepaid's Brief in Support of its Motion to Dismiss or Transfer Venue at 5. Therefore, defendant argued, the Patent Act Claim should be dismissed pursuant to FED. R. CIV. P. 12(b)(6). In the alternative, Florida Prepaid argued that the patent action should be transferred to the Northern District of Florida in view of *forum non-conveniens* issues. *Id.* at 7.

On May 4, 1995, this Court denied defendant's motions. Specifically, we found that

> the complaint, as reasonably read, alleges the defendant has infringed the '055 patent by using the methods and apparatus patented therein to fulfill its obligation to purchasers of the contract. That easily satisfies the standard articulated in Rule 8(a).
>
> Paragraph 6 of the complaint alleges the defendant is infringing the patent by selling contracts performed and effectuated by use of the claims of the '055 patent. While one could interpret the paragraph as complaining of the sale of contracts, it also clearly alleges that the defendant, to perform its obligations under the contract, utilized the methods covered by the '055 patent. In this regard, it is useful to remember that a contract is a promise or set of promises for the breach of which the law gives a remedy or the performance of which the law, in some way, recognizes as a duty.
>
> The bargained for exchange here is that the defendant's contracts allegedly memorialize that in return for the purchaser's investment, Florida Prepaid will somehow provide a return sufficient to satisfy the presently unknown financial liabilities of a college education. Inherent in that allegation, is that the defendant necessarily employs the methods covered by the '055 patent to fulfill its performance. The complaint recognizes this in paragraph 6, as evidenced by its own terms, and its close tracking of the claims of the '055 patent. I will deny the motion to dismiss.

See May 4, 1995 Transcript of Motion at 8-9, *College Savings Bank v. Florida Prepaid Postsecondary Educ. Expense Bd., Civ.* No. 94-5610 (D.N.J. May 4, 1995) (GEB). Moreover, the Court was unpersuaded by defendant's *forum non conveniens* argument because, *inter alia*: (1) the defendant maintained significant contacts with New Jersey; (2) the median trial time at the time of the motion was significantly longer in the Northern District of Florida than in the District of New Jersey; and (3) most of Florida Prepaid's third-party agents who sell contracts and conduct other activities reside outside of Florida. *Id.* at 17-19. An Order denying defendant's motions was entered on May 5, 1995.

More than eight months later, on February 9, 1996, CSB filed a motion to dismiss Florida Prepaid's counterclaims for defamation, product disparagement and trade libel. CSB argued that Florida Prepaid, as a state agency, could not maintain an action for libel or defamation based on statements critical of government operations because such speech is protected by the Free Speech Clause of the First Amendment to the United States Constitution. *See College Savings Bank v. Florida Prepaid Postsecondary Educ. Expense Bd.*, 919 F. Supp. 756, 758 (D.N.J. Mar. 22, 1996) (GEB) ("*College Savings I*"). CSB also contended that Roberts's statement was privileged speech because it commented on a judicial proceeding or a matter that is of public interest. *Id.*

By Memorandum Opinion and Order dated March 22, 1996, this Court granted plaintiff's motion to dismiss defendant's Lanham Act counterclaims after concluding that a government agency, such as Florida Prepaid, could not maintain an action for libel or defamation, regardless of whether that agency is acting in a proprietary capacity. *Id.* at 760. We also noted that "[a] contrary holding would leave open the possibility that a government agency could file a

civil action alleging defamation with malice, and thereby employ its potentially vast resources to chill speech in any number of contexts and regardless of the speaker's actual intent." *Id.* (citing *New York Times Co. v. Sullivan*, 376 U.S. 254, 297, 11 L. Ed. 2d 686, 84 S. Ct. 710 (1964) (Black, J., concurring)). Finally, this Court determined that the common law distinction between product disparagement and trade libel on the one hand, and defamation on the other hand, was irrelevant for purposes of plaintiff's motion because Roberts's statement addressed a matter of public concern. 919 F. Supp. at 761-63.

D. Statutory History

Florida Prepaid challenges the constitutionality of certain provisions of the Patent Act and the Lanham Act. The Patent Act, first enacted in 1790, grants and protects an inventor's right of exclusion for a certain period. *See* Act of April 10, 1790, ch. VII, 1 Stat. 109; *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480, 40 L. Ed. 2d 315, 94 S. Ct. 1879 (1974). The Lanham Act was enacted in 1946. *See* Act of July 5, 1946, ch. 540, 60 Stat. 427. It is intended, among other things, to protect those engaged in commerce against unfair competition. *See* 15 U.S.C. at 1127.

In 1992, the Congress enacted amendments to the Patent Act and the Lanham Act to make clear that state governmental entities must abide by these statutes. *See* Patent and Plant Variety Protection Remedy Clarification Act, Pub.L. No. 102-560, 106 Stat. 4230 (1992); Trademark Remedy Clarification Act, Pub.L. No. 102-542, 106 Stat. 3567 (1992). Both enactments provide that no state or state instrumentality is immune from suit under the Eleventh Amendment for violations of these statutes. *See* Pub.L. No. 102-560, at 2(a)(2), 106 Stat. at 4230 (codified at 35 U.S.C.

§ 296(a)); Pub.L. No. 102-542, § 3(b), 106 Stat. at 3567 (codified at 15 U.S.C. § 1122(a)).

The 1992 amendments were considered necessary because of *Atascadero State Hosp. v. Scanlon*, 473 U.S. 234, 87 L. Ed. 2d 171, 105 S. Ct. 3142 (1985), which held that congressional intent to abrogate state immunity must be explicitly and unambiguously stated in the statute itself, *see Id.* at 246 and because of later decisions that relied on *Atascadero*. *See* S. Rep. No. 102-280, 102d Cong., 2d Sess. 4-7 (1992), reprinted in 1992 U.S.C.C.A.N. 3087, 3090-93. The Congress noted that, under those court decisions, the protection afforded by the Patent Act and the Lanham Act "depended on the status of the infringed party" – that is, whether the party was a state actor. *See Id.* at 9. The amendments were enacted to eliminate this "inherent inequity" and to provide "uniform protection" to patent holders and competitors. *See Id.* at 7, 9.

E. The *Seminole Tribe* Decision

In 1992, the State of Florida was sued in federal court for violating the Indian Gaming Regulatory Act ("IGRA"), Pub.L. No. 100-497, 102 Stat. 2467 (1988). *Seminole Tribe of Florida v. Florida*, 801 F. Supp. 655, 656 (S.D. Fla. 1992), *rev'd*, 11 F.3d 1016 (11th Cir. 1994), aff'd, 134 L. Ed. 2d 252, 116 S. Ct. 1114 (1996). Under IGRA, which was passed pursuant to the Indian Commerce Clause, art. I, § 10, cl. 3 of the Constitution, an Indian tribe may sue the state in federal court if the state refused to negotiate in good faith with the tribe over the establishment of a "compact" to permit gaming on the reservation. 25 U.S.C. § 2710(d)(7). Florida and its individually named governor moved to dismiss the action for lack of subject mater jurisdiction, challenging the constitutionality of the Act under the Eleventh Amendment.

Following a denial of that motion by the district court, the Eleventh Circuit reversed, holding that the Indian Commerce Clause did not grant Congress the authority to abrogate sovereign immunity.[4] *Seminole Tribe of Florida v. Florida*, 11 F.3d at 1016, 1025-28 (11th Cir. 1994), *aff'd*, 134 L. Ed. 2d 252, 116 S. Ct. 1114 (1996). That court further held that the doctrine of *Ex Parte Young*, 209 U.S. 123, 52 L. Ed. 714, 28 S. Ct. 441 (1908), did not authorize suit against the governor in his individual capacity. 11 F.3d at 1029.

The Supreme Court granted certiorari in order to consider: (1) whether the Eleventh Amendment prevents Congress from authorizing suits by Indian tribes against States for prospective injunctive relief to enforce legislation enacted pursuant to the Indian Commerce Clause; and (2) whether the doctrine of *Ex Parte Young* allows suits against the state's governor for prospective injunctive relief to enforce provisions of a statute. 116 S. Ct. at 1122. In a majority decision written by Chief Justice Rehnquist, and joined by Justices O'Connor, Scalia, Kennedy and Thomas, the Supreme Court affirmed the Eleventh Circuit's dismissal of the petitioner's suit, holding that despite Congress's clear

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[4] The Eleventh Circuit rejected the plaintiff's assertion that IGRA was passed not only pursuant to the Indian Commerce Clause, but also pursuant to Section 5 of the Fourteenth Amendment and the Commerce Clause. 11 F.3d at 1025. Specifically, the court found that "IGRA does not create an entitlement to operate gambling operations; rather, it establishes the process and standards by which gambling may be conducted on Indian lands. Thus, IGRA creates no liberty or property interests and cannot implicate the Fourteenth Amendment." *Id.* The court also excluded the possibility that Congress enacted IGRA under the Interstate Commerce Clause. *Id.* at 1026 ("In analyzing Congress' goals, it is clear that alleviating a supposed burden on interstate commerce was not among them.").

intent to abrogate sovereign immunity as evidenced by the language of the statute itself, the Indian Commerce Clause does not grant Congress the power to abrogate a state's immunity without its consent. [5] *Id.* at 1131-32.

In reaching this conclusion, the *Seminole Tribe* majority noted that two questions must be answered to determine if Congress has abrogated the states' immunity from suit: "first, whether Congress has 'unequivocally expressed its intent to abrogate the immunity,' and second, whether Congress has acted 'pursuant to a valid exercise of power.'" *Id.* at 1123. The Court indicated that it was "unmistakably clear" that Congress intended to abrogate Eleventh Amendment immunity in enacting IGRA. [6] *Id.* at 1124. With respect to the second prong of the analysis, however, the Court concluded that Congress had no power to abrogate Eleventh Amendment immunity under the Indian Commerce Clause. *Id.* at 1130. The Court noted that authority to abrogate had been found under only two constitutional provisions in prior decisions: the Fourteenth Amendment, *see Fitzpatrick v. Bitzer*, 427 U.S. 445, 49 L. Ed. 2d 614, 96 S. Ct. 2666 (1976), and the

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[5] The Court also ruled that the doctrine of *Ex Parte Young* could not be used to enforce the Act against a state official such as the governor. *Id.* at 1133. Specifically, the Court held that "where Congress has prescribed a detailed remedial scheme for the enforcement against a State of a statutorily created right, a court should hesitate before casting aside those limitations and permitting an action against a state officer based upon Ex Parte Young." *Id.* at 1132. Because Congress, in enacting IGRA, "chose to impose upon the State a liability which is significantly more limited than would be the liability imposed upon the state officer under *Ex Parte Young*," the Court found that *Ex Parte Young* was inapplicable. *Id.* at 1133.

[6] The petitioner in *Seminole Tribe* did not challenge the Eleventh Circuit's conclusion that IGRA was not passed pursuant to the Fourteenth Amendment or the Interstate Commerce Clause.

Interstate Commerce Clause, *see Pennsylvania v. Union Gas Co.*, 491 U.S. 1, 105 L. Ed. 2d 1, 109 S. Ct. 2273 (1989). *Id.* at 1124-25. The *Seminole Tribe* Court determined that the plurality decision in *Union Gas* should be overruled because it was wrongly decided.[7] 116 S. Ct. at 1128-29. Accordingly, the Court concluded that the Indian Commerce Clause, which is indistinguishable from the Interstate Commerce Clause for purposes of abrogation, did not allow Congress to strip the states of their Eleventh Amendment immunity in the enactment of IGRA. *Id.* at 1131-32.

F. The Present Motions

Less than two months after the United States Supreme Court announced its decision in *Seminole Tribe*, Florida Prepaid filed the instant motions to dismiss CSB's Patent Act Claim and Lanham Act Claim. Essentially, Florida Prepaid asserts that CSB's claims must fail because: (1) to the extent that Congress amended the statutes in question pursuant to one or more of its Article I powers, such amendments are unconstitutional in the wake of *Seminole Tribe*; and (2) to the extent that Congress amended the statutes in question pursuant

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[7] The *Seminole Tribe* Court reasoned that when Union Gas was decided, the Eleventh Amendment already was well understood to limit the federal courts' jurisdiction under Article III. In overruling Union Gas, the Court reconfirmed that the background principle of state sovereign immunity embodied in the Eleventh Amendment is not so ephemeral as to dissipate when the subject of the suit is an area, like the regulation of Indian Commerce, that is under the exclusive control of the Federal Government. Even when the Constitution vests in Congress complete lawmaking authority over a particular area, the Eleventh Amendment prevents congressional authorization of suits by private parties against unconsenting States. The Eleventh Amendment restricts the judicial power under Article III, and Article I cannot be used to circumvent the constitutional limitations placed upon federal jurisdiction. 116 S. Ct. at 1131-32.

to Section 5 of the Fourteenth Amendment, these amendments are not "appropriate legislation" because they are not aimed at remedying the types of actions expressly prohibited by the Fourteenth Amendment's substantive provisions.

This Court certified Florida Prepaid's constitutional challenges to the Attorney General under 28 U.S.C. § 2403(a) and Rule 32A of the General Rules of the District of New Jersey. Upon request of the Department of Justice, the Court filed Orders on July 30 and August 2, 1996, making the United States an Intervenor in these actions.

In response to Florida Prepaid's motions, both CSB and the Intervenor assert that: (1) Florida Prepaid has waived any Eleventh Amendment immunity it may have been entitled to by engaging in the interstate marketing and administration of its investment contracts after Congress indicated that such activity would subject it to suit in federal court (*i.e.*, the doctrine of constructive waiver set forth in *Parden v. Terminal Ry. of Ala. State Docks Dep't*, 377 U.S. 184, 12 L. Ed. 2d 233, 84 S. Ct. 1207 (1964)); and (2) the 1992 amendment to the Patent Act is a valid exercise of federal authority under Section 5 of the Fourteenth Amendment, thereby abrogating the states' Eleventh Amendment immunity from suit under that statute.

In addition, CSB has raised – and the Intervenor has expressly declined to take a position with respect to – the following arguments: (1) Florida Prepaid is not an "alter ego" or "arm of the state" of Florida and, therefore, is not entitled to Eleventh Amendment immunity; and (2) even assuming that Florida Prepaid is entitled to sovereign immunity, (a) defendant has waived its immunity through its actions in these lawsuits; and (b) the 1992 amendment to the Lanham Act is a valid exercise of federal authority under Section 5 of the

Fourteenth Amendment, thereby abrogating the states' Eleventh Amendment immunity from suit under that statute.[8]

II. DISCUSSION

A. STANDARD FOR A MOTION TO DISMISS

Rule 12(b)(1) concerns a federal court's "lack of jurisdiction over the subject matter." FED. R. CIV.P. 12(b)(1). Because "federal courts are courts of limited jurisdiction," they have power to adjudicate "only those cases within the bounds of Article III and the United States Constitution and Congressional enactments stemming therefrom." *Walsh v. McGee*, 899 F. Supp. 1232, 1236 (S.D.N.Y. 1995) (citing *Marbury v. Madison*, 5 U.S. (1 Cranch) 137, 173-80, 2 L. Ed. 60 (1803); *W.G. v. Senatore*, 18 F.3d 60, 64 (2d Cir. 1994)). The question of subject matter jurisdiction is so fundamental that it is a "question the court is bound to ask and answer for itself, even when not otherwise suggested . . . ." *Mansfield, Coldwater & Lake Michigan Ry. v. Swan*, 111 U.S. 379, 382, 28 L. Ed. 462, 4 S. Ct. 510 (1884). Thus, there is no restriction on who may make a motion pursuant to Rule 12(b)(1), or when such motion may be made. *See* 5A CHARLES A. WRIGHT & ARTHUR R. MILLER, FEDERAL PRACTICE AND PROCEDURE § 1350, at 200 (2d ed. 1990). In fact, Rule 12(h)(3) specifically provides that "whenever it appears by suggestion of the parties or otherwise that the court lacks jurisdiction of the subject matter, the court shall

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[8] The Intervenor has also declined to take any position with respect to the substantive merits of either plaintiff's Patent Act Claim or Lanham Act Claim. *See* Intervenor Brief at 3 n.1.

dismiss the action."[9] The burden of proving that a federal court has subject matter jurisdiction over a given action rests with the party attempting to invoke the court's jurisdiction. *Thomson v. Gaskill*, 315 U.S. 442, 446, 86 L. Ed. 951, 62 S. Ct. 673 (1942); *see* generally 13 CHARLES A. WRIGHT, ARTHUR R. MILLER & EDWARD H. COOPER, FEDERAL PRACTICE & PROCEDURE § 3522, at 60-64 (2d ed. 1984). If a case is dismissed for lack of subject matter jurisdiction, all other matters are moot. *Bell v. Hood*, 327 U.S. 678, 682, 90 L. Ed. 939, 66 S. Ct. 773 (1946).

B. ARM OF THE STATE DOCTRINE

CSB first contends that the constitutional issues in this case need not be reached because Florida Prepaid is not the "alter ego" or "arm of the state" of Florida and, therefore, is not even entitled to Eleventh Amendment immunity. In response, Florida Prepaid counters that: (1) CSB is judicially estopped from arguing that Florida Prepaid is not an arm of the state for purposes of the pending motions because it previously argued in *College Saving I* that a state agency, such as Florida Prepaid, is barred as a matter of law from maintaining counterclaims for defamation, product disparagement and trade libel, *see* Florida Prepaid's Lanham Act Brief at 10; (2) CSB is barred by the law of the case doctrine from arguing that Florida Prepaid is not an arm of

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[9] Rule 12(h)(3) provides: "Whenever it appears by suggestion of the parties or otherwise that the court lacks jurisdiction of the subject matter, the court shall dismiss the action." The distinction between a Rule 12(h)(3) motion and a Rule 12(b)(1) motion "is simply that the former may be asserted at any time and need not be responsive to any pleading of the other party." *Berkshire Fashions, Inc. v. M.V. Hakusan II*, 954 F.2d 874, 879 n.3 (3d Cir. 1992). For purposes of this case, the motions are analytically identical because the only consideration is whether subject matter jurisdiction arises. *See Id.*

the state because this Court previously dismissed Florida Prepaid's counterclaims after finding that Florida Prepaid was a state agency, *see Id.*; and (3) Florida Prepaid has satisfied its burden under *Christy v. Pennsylvania Turnpike Comm'n*, 54 F.3d 1140 (3d Cir.), *cert. denied*, 133 L. Ed. 2d 238, 116 S. Ct. 340 (1995), of demonstrating that it is an arm of the State of Florida. *Id.* at 5-10. These claims will be addressed *seriatim*.

1. Judicial Estoppel

The doctrine of judicial estoppel "serves a consistently clear and undisputed jurisprudential purpose: to protect the integrity of the courts." *McNemar v. Disney Store, Inc.*, 91 F.3d 610, 616 (3d Cir. 1996). This doctrine, which "is an equitable doctrine invoked by a court at its discretion," *Id.* at 617 (quotation omitted), precludes a party from assuming a position in a legal proceeding that contradicts or is inconsistent with a previously asserted position. *Ryan Operations G.P. v. Santiam-Midwest Lumber Co.*, 81 F.3d 355, 358 (3d Cir. 1996); *Delgrosso v. Spang & Co.*, 903 F.2d 234, 241 (3d Cir.), *cert. denied*, 498 U.S. 967, 112 L. Ed. 2d 412, 111 S. Ct. 428 (1990); *Scarano v. Central R.R. Co. of N.J.*, 203 F.2d 510, 513 (3d Cir. 1953); C. WRIGHT, A. MILLER, E. COOPER, 18 FEDERAL PRACTICE AND PROCEDURE § 4477 (1981 & Supp. 1996). While judicial estoppel is not intended to eliminate all inconsistencies, regardless of how slight or inadvertent, it is designed to prevent litigants from "playing 'fast and loose with the courts.'" *Ryan Operations*, 81 F.3d at 358 (quoting *Scarano*, 203 F.2d at 513). To permit a party to assume a position inconsistent with a position it had successfully relied upon in a past proceeding "would most flagrantly exemplify . . . playing 'fast and loose with the courts' which has been emphasized as an evil the courts should not tolerate." *Delgrosso*, 903 F.3d at 241 (quoting

Scarano, 203 F.2d at 513); *see* 903 F.3d at 242 (noting that the "application of the doctrine of judicial estoppel is particularly appropriate in situations . . . where the party benefitted from its original position.").

To determine whether the doctrine of judicial estoppel applies to the particular facts and circumstances of a position, a court must engage in a two-part threshold inquiry: "(1) Is the party's present position inconsistent with a position formerly asserted? (2) If so, did the party assert either or both of the inconsistent positions in bad faith – *i.e.*, 'with intent to play fact and loose with the court?'" *McNemar*, 91 F.3d at 618 (citing *Ryan Operations*, 81 F.3d at 361). Only if both prongs are satisfied is judicial estoppel an appropriate remedy. *Ryan Operations*, 81 F.3d at 361.

While at first blush it may appear as though CSB has asserted inconsistent positions regarding Florida Prepaid's status as an arm of the state, closer examination reveals that the issue of whether a state agency may bring an action for defamation, product disparagement or trade libel against a private competitor does not resolve whether that same state agency is entitled to Eleventh Amendment immunity. Indeed, the City of Chicago itself, whose suit against the Chicago Tribune occasioned the clear enunciation of the doctrine that no government entity can maintain actions for defamation, *see City of Chicago v. Tribune Co.*, 307 Ill. 595, 139 N.E. 86 (Ill. 1923), has been found not to be entitled to immunity under the Eleventh Amendment.[10] *N.M. Paterson & Sons, Ltd. v. City of Chicago*, 176 F. Supp. 323, 324 (N.D. Ill.

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[10] Of course, the same would hold true for any city or county because Eleventh Amendment immunity does not extend to these entities. *See, e.g., Mt. Healthy City Sch. Bd. of Educ. v. Doyle*, 429 U.S. 274, 50 L. Ed. 2d 471, 97 S. Ct. 568 (1977); *Lincoln County v. Luning*, 133 U.S. 529, 33 L. Ed. 766, 10 S. Ct. 363 (1890).

1959). Accordingly, the Court finds that judicial estoppel is inappropriate under these circumstances.

2. Law of the Case

The law of the case doctrine was developed "to maintain consistency and avoid reconsideration of matters once decided during the course of a single continuing lawsuit." *Casey v. Planned Parenthood of Southeastern Pa.*, 14 F.3d 848 (3d Cir. 1994) (quoting 18 CHARLES A. WRIGHT, ARTHUR R. MILLER & EDWARD H. COOPER, FEDERAL RULES AND PRACTICE PROCEDURE § 4478 (1981)). The doctrine of the law of the case dictates that "when a court decides upon a rule of law, that rule should continue to govern the same issues in subsequent stages in the litigation." *Deisler v. McCormack Aggregates, Co.*, 54 F.3d 1074, 1086 (3d Cir. 1995); *Resyn Corp. v. United States*, 945 F.2d 1279, 1281 (3d Cir. 1991) (quoting *Devex Corp. v. General Motors Corp.*, 857 F.2d 197, 199 (3d Cir. 1988), *cert. denied sub nom. Technograph Liquidating Trust v. General Motors Corp.*, 489 U.S. 1015, 103 L. Ed. 2d 190, 109 S. Ct. 1128 (1989)). Law of the case rules apply "both to issues expressly decided by a court in prior rulings and to issues decided by necessary implication." *Bolden v. Southeastern Pa. Transp. Auth.*, 21 F.3d 29, 31 (3d Cir. 1994) (citing *Doe v. New York City Dep't of Social Servs.*, 709 F.2d 782 (2d Cir.), *cert. denied sub nom. Catholic Home Bureau v. Doe*, 464 U.S. 864, 78 L. Ed. 2d 171, 104 S. Ct. 195 (1983)). The law of the case doctrine merely "directs a court's discretion, it does not limit the tribunal's power." *Arizona v. California*, 460 U.S. 605, 618, 75 L. Ed. 2d 318, 103 S. Ct. 1382 (1983); *Bloom v. Consolidated Rail Corp.*, 812 F. Supp. 553, 556 (E.D. Pa. 1993), *rev'd on other grounds*, 41 F.3d 911 (3d Cir. 1994). It is axiomatic that "the doctrine of the law of the case comes into play only with respect to issues previously determined."

Quern v. Jordan, 440 U.S. 332, 347 n.18, 59 L. Ed. 2d 358, 99 S. Ct. 1139 (1979).

As noted above, this Court's ruling that Florida Prepaid could not maintain an action for defamation, product disparagement or trade libel against CSB was not dispositive of the issue of whether that same state agency is entitled to Eleventh Amendment immunity. Nor was this issue decided by implication. Therefore, because *College Savings I* did not reach the issue of whether Florida Prepaid is an alter ego or arm of the State of Florida, we conclude that the doctrine of the law of the case is inapplicable to the case at bar and does not preclude this Court from considering the merits of CSB's argument that Florida Prepaid is not entitled to Eleventh Amendment immunity.

3. Arm of the State Doctrine

The Eleventh Amendment to the Constitution provides: "The Judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States by Citizens of another State, or by Citizens or Subjects of any Foreign State." U.S. CONST. amend. XI. This provision divests the federal courts of the power to entertain a suit brought by a private party against a state unless either the state consents or Congress authorizes the action. *Port Authority Trans-Hudson Corp. v. Feeney*, 495 U.S. 299, 304, 109 L. Ed. 2d 264, 110 S. Ct. 1868 (1990); *Ford Motor Co. v. Dep't of Treasury of the State of Ind.*, 323 U.S. 459, 89 L. Ed. 389, 65 S. Ct. 347 (1945); *Hans v. Louisiana*, 134 U.S. 1, 15, 33 L. Ed. 842, 10 S. Ct. 504 (1890).

The Eleventh Amendment bars suits not only against the state itself, but also against a subdivision of the state if the state remains "the real party in interest." *Edelman v. Jordan*,

415 U.S. 651, 663, 39 L. Ed. 2d 662, 94 S. Ct. 1347 (1974); 13 CHARLES A. WRIGHT, ARTHUR R. MILLER & EDWARD H. COOPER, FEDERAL PRACTICE AND PROCEDURE § 3524 at 140-145 (2d ed. 1984) (Eleventh Amendment protects subdivisions of states such as penal institutions, highway departments, courts, most universities, and bar associations). The state is the real party in interest whenever "'the judgment sought would expend itself on the public treasury or domain, or interfere with the public administration,' or if the effect of the judgment would be 'to restrain the Government from acting, or to compel it to act.'" *Pennhurst State Sch. & Hosp. v. Halderman*, 465 U.S. 89, 101 n.11, 79 L. Ed. 2d 67, 104 S. Ct. 900 (1984) (quoting *Dugan v. Rank*, 372 U.S. 609, 10 L. Ed. 2d 15, 83 S. Ct. 999 (1963)).

In an effort to formulate a test to determine whether Eleventh Amendment immunity extends to a particular entity, the Third Circuit has developed the following set of factors ("*Urbano* factors")[11]:

> (1) whether, in the event the plaintiff prevails, the payment of the judgment would come from the state (this includes three considerations: whether the payment will come from the state's treasury, whether the agency has sufficient funds to satisfy the judgment, and whether the sovereign has immunized itself from responsibility for the agency's debts); (2)

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[11] In *Urbano v. Bd. of Managers of N.J. State Prison*, 415 F.2d 247, 251-52 (3d Cir. 1969), *cert. denied*, 397 U.S. 948, 25 L. Ed. 2d 128, 90 S. Ct. 967 (1970), the court set forth nine factors for determining whether Eleventh Amendment immunity extended to a particular entity. Subsequently, however, these factors were divided into the present three general factors. *Fitchik v. New Jersey Transit Rail Operations, Inc.*, 873 F.2d 655, 659 (3d Cir.), *cert. denied*, 493 U.S. 850, 107 L. Ed. 2d 107, 110 S. Ct. 148 (1989).

> the status of the agency under state law (this includes four considerations: how state law treats the agency generally, whether the agency is separately incorporated, whether the agency can be sue and be sued in its own right, and whether it is immune from state taxation); and (3) what degree of autonomy the agency enjoys.

Christy, 54 F.3d at 1144-45 (citing *Peters v. Del. River Port Auth. of Pa. and N.J.*, 16 F.3d 1346, 1350 (3d Cir.), *cert. denied*, 130 L. Ed. 2d 20, 115 S. Ct. 62 (1994)); *see* also *Bolden v. Southeastern Pa. Transp. Auth.*, 953 F.2d 807, 816 (3d Cir. 1991) (*in banc*), *cert. denied*, 504 U.S. 943, 119 L. Ed. 2d 206, 112 S. Ct. 2281 (1992); *Fitchik*, 873 F.2d 655, 659. The party asserting Eleventh Amendment immunity bears the burden of proving entitlement to it. *Christy*, 54 F.3d at 1144. We turn now to this three-pronged inquiry.

a. Funding

Although no single *Urbano* factor is dispositive, the "most important" is whether a judgment against the entity in question would be paid out of the state treasury. *Christy*, 54 F.3d at 1145 (citing *Fitchik*, 873 F.2d at 659). This special emphasis is supported by "the Eleventh Amendment's central goal: the prevention of federal court judgments that must be paid out of the State's treasury." *Id.* (citing *Fitchik*, 873 F.2d at 659-60). *See* also *Hess v. Port Authority Trans-Hudson Corp.*, 513 U.S. 30, 115 S. Ct. 394, 404, 130 L. Ed. 2d 245 (1994) ("Prevention of federal court judgments that must be paid out of a State's treasury" formed the "impetus" for the Eleventh Amendment); *id.* ("The vast majority of Circuits have concluded that the state treasury factor is the most important factor to be considered and, in practice, have generally accorded this factor dispositive weight.").

Under Florida law, Florida Prepaid can "invest funds not required for immediate disbursement." FLA. STAT. § 240.551(5)(c)(5). Florida Prepaid may also "hold, buy, and sell any instruments, obligations, securities, and property determined appropriate by the board," *see* FLA. STAT. § 240.551(5)(c)(7)," "solicit and accept gifts, grants, loans, and other aids from any source," *see* FLA. STAT. § 240.551(5)(c)(12), and "require and collect administrative fees and charges in connection with any transaction and impose reasonable penalties, including default, for delinquent payments for entering into an advance payment contract on a fraudulent basis." FLA. STAT. § 240.551(5)(c)(13). Moreover, Florida Prepaid has the authority to increase contract prices as necessary to meet its costs. *See* 1995 Florida Prepaid College Program Brochure at 8, attached to Declaration of Deborah M. Lodge ("Lodge Decl.") as Exh.7.

Using these powers, Florida Prepaid has amassed total assets of nearly $ 1.5 billion and a surplus in excess of $ 184 million as of June 30, 1995.[12] Moreover, it has done so without much, if any, support from the State of Florida. Indeed, Stanley Tate, Florida Prepaid's chairman, stated that: "Not one dime of tax money has been spent on this program." *See* Testimony of Stanley G. Tate, April 30, 1990, before the *Subcommittee on Labor, Health and Human Services, Education and Related Agencies*, 101st Cong., 2d Sess. at 2504, attached to Lodge Decl. as Exh. 3. In the same written testimony, Tate also explained that the program was started with a $ 600,000 loan from the State of Florida Department

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[12] The $184 million represents the present value amount by which "the expected value of assets exceeds the expected value of liabilities" as stated by Ernst & Young, Florida Prepaid's accounting firm. *See* 1996 Annual Report at 12-13, attached to Lodge Decl. as Exh. 4.

of Insurance, and that this loan was paid in full in 1989, "two full years ahead of schedule." *Id.*

Although these factors tend to show that defendant is self-sufficient in many respects, Florida Prepaid is precluded by law from satisfying a judgment against it. Specifically, Florida law provides:

> Neither the state nor any of its agencies shall pay or be required to pay monetary damages under the judgment of any court except pursuant to an appropriation made by law. To enforce a judgment for monetary damages against the state or a state agency, the sole remedy of the judgment creditor, if there has not otherwise been an appropriation made by law to pay the judgment, is to petition the Legislature in accordance with its rules to seek an appropriation to pay the judgment.

FLA. STAT. 11.066(3). Thus, the fact that Florida Prepaid may have more than ample funds to satisfy any judgment that may result from this action is completely irrelevant because Florida Prepaid, like all other state agencies in Florida, is barred by law from satisfying any judgment against it, regardless of amount. Accordingly, this factor weighs heavily in favor of finding that Florida Prepaid is an arm of the State of Florida.

Another factor that tends to weigh in favor of Florida Prepaid's claim that it is entitled to Eleventh Amendment immunity is the fact that, if the Trust Fund itself proves unable to meet its obligations, the State of Florida will pay the beneficiaries directly:

> The state shall agree to meet the obligations of the board to qualified beneficiaries if moneys in the fund fail to offset the obligations of the board. The

> Legislature shall appropriate to the Prepaid Postsecondary Education Expense Trust Fund the amount necessary to meet the obligations of the board to qualified beneficiaries.

FLA. STAT. § 240.551(9). Thus, any resulting depletion of the Trust Fund through litigation would likely trigger the obligation of the State to make payments to beneficiaries. Moreover, the State of Florida is ultimately responsible for covering certain debts of Florida Prepaid:

> In the event that the state determines the program to be financially infeasible, the state may discontinue the provision of the program. Any qualified beneficiary who has been accepted by and is enrolled or is within 5 years of enrollment . . . shall be entitled to exercise the complete benefits for which he or she has contracted. All other contract holders shall receive a refund . . . of the amount paid in and an additional amount in the nature of interest at a rate that corresponds, at a minimum, to the prevailing interest rates for savings accounts provided by banks and savings and loan associations.

Id. § 240.551(14). Therefore, while the parties argue over the importance of this obligation, *see* CSB's Lanham Act Brief at 15-16; Montjoy Decl. ¶¶ 23-26, it is undisputed that under certain circumstances, the State of Florida will cover Florida Prepaid's debts. Accordingly, the Court finds that this factor weighs heavily in favor of finding that Florida Prepaid is an arm of the state.

The existence of a moderate amount of insurance does not change this analysis. The Florida Casualty Insurance Risk Management Trust Fund is a self-insurance program created by the State of Florida for the purpose of insuring all state

agencies and is administered by the Division of Risk Management of the Florida Department of Insurance. *See* Montjoy Decl. ¶¶ 15-20. Premiums paid into the Fund by state agencies come from a variety of sources, including state-appropriated funds. *See id.* ¶ 19. Coverage is limited to $ 100,000 per claimant and $ 200,000 for all claims arising out of the same transaction or occurrence. FLA. STAT. § 768.28. Thus, only the first $ 100,000 or $ 200,000 of any judgment(s) would be paid through insurance; the rest could be obtained only through direct legislative appropriation. Montjoy Decl. ¶ 21. Taken together, these provisions do not establish that the State of Florida has insulated itself from any potential liability that may arise from a claim against Florida Prepaid. Rather, these provisions tend to demonstrate that the State of Florida has found, as a matter of policy, that the legislature should not be burdened with petitions for such claims. Accordingly, the existence of insurance in this matter does not weigh against Florida Prepaid's claim that it is an arm of the state.

In addition, the Court is not persuaded by CSB's suggestion that the importance of FLA. STAT.§ 11.066(3), which provides that any judgment against a state agency must be paid pursuant to an appropriation of the state legislature, should somehow be diminished because "it was adopted solely to bolster sovereign immunity." CSB's Lanham Act Brief at 17 (citing *Arnold v. BLaST Intermediate Unit 17*, 843 F.2d 122 (3d Cir. 1988); *Gary W. v. State of La.*, 622 F.2d 804 (5th Cir. 1980), *cert. denied*, 450 U.S. 994 (1981)). First, in both *Arnold and Gary W.*, the courts were faced with the issue of whether a state could, in effect, avoid paying a federal judgment by relying on its own law to frustrate execution. The federal courts quite properly refused to countenance such defiance. Moreover, neither case involved an Eleventh Amendment question, and neither case suggests

that a court should ignore an applicable state-law payment provision before a judgment is rendered. Second, the Supreme Court has never indicated that a state acts inappropriately by structuring an agency so that it may enjoy the special constitutional protections of the States themselves. Indeed, in *Lake Country Estates, Inc. v. Tahoe Regional Planning Agency*, the Court found that such structuring was a factor weighing in favor of finding an agency to be an arm of the state. 440 U.S. 391, 401, 99 S. Ct. 1171, 59 L. Ed. 2d 401 (1979).

In sum, the Court finds that the first factor, whether the source of payment for any judgment would come from the state, weighs heavily in favor of finding that Florida Prepaid is an alter ego of the State of Florida. Florida is obligated, under certain circumstances, to cover the obligations of Florida Prepaid. Moreover, while it is true that the legislature is not compelled to satisfy a judgment against Florida Prepaid, Florida Prepaid, like all other state agencies in the State of Florida, cannot satisfy this judgment itself. Clearly, the State of Florida should not be penalized with the loss of sovereign immunity for the way it had chosen to organize its government. Florida Prepaid operates in the same manner and is subject to the same restrictions as are other Florida State agencies.

b. Status at State Law

The second general factor we must consider in determining whether Florida Prepaid is an arm or alter ego of the State of Florida is the status of Florida Prepaid under Florida law. Our purpose here is to determine whether Florida law treats Florida Prepaid as an independent entity, or as a surrogate for the State. *See Fitchik*, 873 F.2d at 662.

Under Florida law, those entities entitled to sovereign immunity include "state agencies," which are defined as, inter

alia, "'corporations primarily acting as instrumentalities or agencies of the state.'" *Skoblow v. Ameri-Manage, Inc.*, 483 So. 2d 809, 812 (Fla. App. 3d Dist. 1986) (Quoting FLA. STAT. § 768.28(2)), *aff'd sub nom. Spooner v. Dep't of Corrections*, 514 So. 2d 1077 (Fla. 1987), *cert. denied*, 491 U.S. 904 (1989). In *Skoblow*, the court held that a private hospital management company was entitled to sovereign immunity as a "state agency" because it had contracted with the government to manage a state hospital. *Id.* at 811-12. It follows, therefore, that a full-time state agency such as Florida Prepaid can receive no less protection.

Several other factors also weigh in favor of finding Florida Prepaid an arm of the state. For example, monies in the Florida Prepaid Trust Fund are protected by law from the creditors of the owners or beneficiaries of advance tuition payment contracts. *See* FLA. STAT. § 222.22 (1995). Florida Prepaid also enjoys certain tort immunity under state law. *See* FLA. STAT. § 768.28. Further, all of Florida Prepaid's powers are derived from specific legislative grants. Indeed, state agencies in Florida have no inherent or common law powers. *Kizar v. Wittenberg*, 398 So. 2d 1002, 1003 (Fla. App. 5th Dist. 1981); *Florida ex rel. Greenberg v. Florida State Bd. of Dentistry*, 297 So. 2d 628, 636 (Fla. App. 1st Dist.), *cert. dismissed*, 300 So. 2d 900 (Fla. 1974). All Florida agencies, including Florida Prepaid, have only those powers specifically granted to them by the legislature.

On the other hand, there are certain factors which tend to weigh against a finding of immunity. Specifically, Florida Prepaid: (1) has the ability to sue and be sued in its own name; (2) controls its own funds and the investment and income therefrom; (3) may enter into contracts in its own name; and (4) may invest funds. *See* CSB's Lanham Act Brief

at 22 & n.20.[13] However, the Supreme Court has found that at least two of these factors – the fact that an agency is a "body corporate" and that it could "sue or be sued" – have limited relevance in Eleventh Amendment cases. *Florida Dept. of Health & Rehabilitative Servs. v. Florida Nursing Home Ass'n*, 450 U.S. 147, 67 L. Ed. 2d 132, 101 S. Ct. 1032 (1981) (per curiam). Moreover, this Court has already determined that Florida Prepaid's ability to control funds, enter into contracts, and invest funds was relatively unimportant for the present analysis when compared with other statutory provisions under federal law. Accordingly, the Court finds that the second general factor also weighs in favor of a finding of immunity.

c. Autonomy

The Prepaid Postsecondary Education Expense Board, which administers Florida Prepaid, is composed of four officers of the State of Florida: the Insurance Commissioner and Treasurer, the Comptroller, the Chancellor of the Board of Regents, and the Executive Director of the State Board of Community Colleges.[14] FLA. STAT. § 240.551(5). Three additional members are appointed by the Governor of Florida and confirmed by the State Senate. *Id.* The Governor also appoints the initial chairman of the board. *Id.* § 240.551(5)(a). State authority over the appointment of Board

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[13] CSB also alleges that Florida Prepaid is "separately incorporated," and therefore, this factor should weigh against immunity. However, Florida Prepaid is not separately incorporated; rather, it is a state agency that has also been created as a "body corporate" with certain corporate powers. FLA. STAT. § 240.551(5).

[14] The Insurance Commissioner and Treasurer and the Comptroller are elected constitutional officers of the State of Florida. *See* FLA. CONST. art. IV, §§ 4(d), (e).

members "lends obvious support to a finding of sovereignty." *Christy*, 54 F.3d at 1149 (citing *Peters*, 16 F.3d at 1351-52).

Moreover, in another plain limitation on autonomy, Florida Prepaid's accounts are "subject to annual audits by the Auditor General or his designee."[15] FLA. STAT. § 240.551(5)(g).

On the other hand, weighing in favor of a finding of autonomy are the facts that the Board itself "appoint[s] an executive director to serve as the chief administrative and operational officer of the board and to perform other duties assigned to him or her by the board," FLA. STAT. § 240.551(5)(b) and is authorized to "contract for necessary goods and services, employ necessary personnel, and engage the services of private consultants, actuaries, managers, legal counsel, and auditors for administrative or technical assistance." *Id.* § 240.551(5)(c)(11). Florida Prepaid also has the ability to "establish agreements or other transactions with federal, state, and local agencies, including state universities and community colleges," *id.* § 240.551(5)(c)(4), "invest funds not required for immediate disbursements," *id.* § 240.551(5)(c)(5), "appear on its own behalf before boards, commissions, or other governmental agencies," *id.* § 240.551(5)(c)(6), "hold, buy, and sell any instruments, obligations, securities, and property determined appropriate by the board," *id.* § 240.551(5)(c)(7), "restrict the numbers of participants in the . . . plan[s]," *id.* § 240.551(5)(c)(9), "delineate the terms and conditions under which payments may be withdrawn from the fund and impose reasonable fees and charges for such withdrawal," *id.* § 240.551(5)(c)(16),

[15] The Auditor General of Florida is an officer of the State of Florida appointed by the state legislature pursuant to Article III, section 2 of the Florida Constitution.

and "establish other policies, procedures, and criteria to implement and administer the provisions of this section." *Id.* § 240.551(5)(c)(18).[16]

On balance, this factor weighs slightly in favor of immunity from suit in this case. *Cf. Peters*, 16 F.3d at 1351-52 (where separately incorporated agency was found to have power to enter contracts, hold property, and set and collect tolls, court held that the autonomy factor weighed "slightly" in favor of affording immunity in light of the states' power to appoint the members of the board of the agency in question). Further, we note that like all Florida state agencies, Florida Prepaid has only the powers and degree of independence necessary for it to carry out the tasks assigned to it by the State of Florida.

[16] With respect to CSB's contention that Florida Prepaid is autonomous, in part, because its funds remain separate from other state funds at all times, *see* CSB's Lanham Act Brief at 24, we note that a similar argument was rejected by the court in *Michigan v. United States*, 40 F.3d 817 (6th Cir. 1994). Specifically, the court noted:

> It is likewise immaterial that the funds of the education trust, like the funds of many public corporations, authorities, and similar establishments, come primarily from persons to whom the entity provides a service – and it is immaterial that such funds are earmarked for the benefit of those who receive the service. If the funds of the Postal Service come primarily from persons who buy stamps, the funds of the Tennessee Valley Authority from those who purchase power from that agency, and the funds of the Port of New York authority from users of the authority's bridges and tunnels, it does not mean that the Postal Service, the Tennessee Valley Authority, and the Port of New York Authority are anything other than governmental in character. Neither is the governmental character of these agencies compromised in any way by the fact that the agencies' funds are earmarked – like highway trust funds and countless other restricted accounts of governmental bodies – for use in performing the functions that the agencies were created by law to perform. *Id.* at 829.

d. Totality of the Factors

Having considered each of the three factors above, we now must consider the three factors in their totality. *See Bolden*, 953 F.2d at 821. Since the most important factor, funding, weighs heavily in favor of Florida Prepaid, and the other two factors also weigh at least slightly in favor of Florida Prepaid, the balance is clearly struck in favor of a finding that Florida Prepaid enjoys sovereign immunity as an arm of the State of Florida.

C. WAIVER BY CONDUCT IN LITIGATION

CSB argues that, even if the Eleventh Amendment would otherwise apply and would undercut the jurisdiction of this Court, Florida Prepaid has waived this defense and has effectively consented to being sued here by "participating in this federal action and by filing counterclaims in both the Lanham Act and patent actions." CSB's Lanham Act Brief at 9. According to CSB, Florida Prepaid

> has made more than a "general appearance" in this Court. Florida Prepaid has filed three counterclaims and has availed itself of the Court's jurisdiction in those matters. By virtue of its participation in this suit, Florida Prepaid thus has waived any Eleventh Amendment immunity it might have enjoyed.

Id. at 10 (citation omitted). Moreover, CSB seems to suggest that Florida Prepaid's failure to raise the Eleventh Amendment defense in its pleadings somehow precludes defendant from raising this defense at this time.

Plaintiff's arguments merit little discussion. To begin with, Florida Prepaid did not voluntarily enter into this litigation; instead, it was sued in this district despite conducting less than one percent of its business here. Thus, its

motion to dismiss pursuant to FED. R. CIV. P. 12(b)(6) or, in the alternative, to transfer the Patent Act Complaint to the Northern District of Florida pursuant to 28 U.S.C. § 1404, must be viewed as the response of a "beleaguered defendant," rather than an active participant. *See Unix Sys. Labs., Inc. v. Berkeley Software Design, Inc.*, 832 F. Supp. 790, 801 (D.N.J. 1993); *see* also *Pennhurst State Sch. & Hosp.*, 465 U.S. at 99 (stating that the waiver of a state's sovereign immunity, like the waiver of any constitutional right, must be construed in favor of the holder of the right). It is also clear that Florida Prepaid's counterclaims all involved matters that arose from, or were concerned with, matters in the underlying complaints. *See Kaplan v. First Options of Chicago, Inc.*, 19 F.3d 1503, 1512 (3d Cir.) (noting that it is well established that "filing a counterclaim does not waive an objection to jurisdiction."), *cert. granted in part*, 115 S. Ct. 634 (1994), *aff'd*, 514 U.S. 938, 115 S. Ct. 1920, 131 L. Ed. 2d 985 (1995); *see* also *Bayou Steel Corp. v. M/V Amstelvoorn*, 809 F.2d 1147, 1148 (5th Cir. 1987); *In re Arthur Treacher's Franchisee Litig.*, 92 F.R.D. 398, 413 (E.D. Pa. 1981); *cf. Neifeld v. Steinberg*, 438 F.2d 423, 431 n.17 (3d Cir. 1971) (dicta). Finally, we note that this analysis is not changed by the fact that Florida Prepaid did not raise the Eleventh Amendment immunity defense in its answer. The Eleventh Amendment defense sufficiently "partakes of the nature of a jurisdictional bar so that it need not be raised in the trial court." *Florida Dep't of State v. Treasure Salvors, Inc.*, 458 U.S. 670, 683 n.18, 73 L. Ed. 2d 1057, 102 S. Ct. 3304 (1982); *Edelman*, 415 U.S. at 678. Therefore, Florida Prepaid's failure to raise this defense at the outset does not preclude its application at this juncture.

D. THE *PARDEN* DOCTRINE

Where a state consents to being sued, neither the Eleventh Amendment nor the doctrine of sovereign immunity is a bar. *See Petty v. Tennessee-Missouri Bridge Comm'n*, 359 U.S. 275, 3 L. Ed. 2d 804, 79 S. Ct. 785 (1959); *Clark v. Barnard*, 108 U.S. 436, 27 L. Ed. 780, 2 S. Ct. 878 (1883). In the absence of an express consent by a state to be sued, federal courts have still attempted to find some type of implied or constructive consent by the state to avoid the limitations of the Eleventh Amendment. Thus, in *Parden v. Terminal Ry. of Ala. State Docks Dep't*, 377 U.S. 184, 12 L. Ed. 2d 233, 84 S. Ct. 1207 (1964), the Court found that the State of Alabama, by its conduct in operating a railroad, had consented to suit in federal court under the Federal Employers' Liability Act ("FELA"), 45 U.S.C. §§ 51-60. In *Parden*, employees brought a FELA personal injury suit for damages against an Alabama-owned interstate railroad. The Court first examined whether Congress had intended to include state-owned as well as privately-owned rail carriers under the coverage of FELA. Although there was no language in FELA specifically authorizing suits against a state, Congress had made FELA applicable to "every" interstate rail carrier, thus including the Alabama-owned railroad within its coverage.

After finding that the state-owned railroad was within the coverage of FELA, the Court next examined whether Congress had the power to subject Alabama to suit in light of the State's sovereign immunity. Justice Brennan, writing for a five-member majority, found that by empowering Congress to regulate commerce, "the States necessarily surrendered any portion of their sovereignty that would stand in the way of such regulation." 377 U.S. at 192. However, the majority opinion went on to explain that the Eleventh Amendment was

not being overridden, since a state still could not be sued by an individual without its consent. The Court concluded that Alabama had consented to a suit under FELA by its continued operation of an interstate railroad for approximately twenty years after Congress had made such railroads subject to suit under FELA.

Four Justices disagreed as to the type of statutory notice that was necessary before Congress could make the states subject to suit through their implied consent.

> It should not be easily inferred that Congress, in legislating pursuant to one article of the Constitution, intended to effect an automatic and compul sory waiver of rights arising out of another. Only when Congress has clearly considered the problem and expressly declared that any state which undertakes given regulable conduct will be deemed thereby to have waived its immunity should courts disallow the invocation of this defense.
>
> . . . If the automatic consequence of state operation of a railroad in interstate commerce is to be waiver of sovereign immunity, Congress' failure to bring home to the State the precise nature of its option makes impossible the "intentional relinquishment or abandonment of a known right or privilege" which must be shown before constitutional rights may be taken to have been waived. *Johnson v. Zerbst*, 304 U.S. 458, 464, 82 L. Ed. 1461, 58 S. Ct. 1019 (1938); *Fay v. Noia*, 372 U.S. 391, 9 L. Ed. 2d 837, 83 S. Ct. 822 (1963).

Id. 377 U.S. at 198-200 (White, J., dissenting). Despite the difference between the majority and dissenters regarding the need for express congressional authorization for suits against

the state, the *Parden* Court recognized that where Congress under its commerce power had authorized private suits against a state engaging in certain conduct and the state continued that conduct, the state necessarily had consented to be sued.

Subsequently, in *Employees of the Dep't of Pub. Health & Welfare v. Dep't of Public Health & Welfare*, 411 U.S. 279, 36 L. Ed. 2d 251, 93 S. Ct. 1614 (1973), the dissenting position in *Parden* was adopted by a majority of the Court. The *Employees* case involved a suit against the State of Missouri to enforce the State's compliance with the Fair Labor Standards Act, which had been amended to apply to state and local governments. The majority distinguished *Parden* on the grounds that whereas states have a choice whether or not to operate railroads, they have little discretion in deciding whether to provide basic public services like public hospitals and police protection. In the absence of a clear declaration from Congress that it intended to make states liable for violations of the Act, the Court concluded, there is no basis for finding a constructive waiver. *Id.* at 285.

The Court's refusal to find constructive waivers became even clearer a year after the *Employees* decision in *Edelman v. Jordan*, 415 U.S. 651, 39 L. Ed. 2d 662, 94 S. Ct. 1347 (1974). In addition to trying to avoid the Eleventh Amendment by suing the state officers, the plaintiffs also claimed that Illinois had waived its immunity to suits over its welfare program by voluntarily choosing to receive federal funds. Under the Social Security Act, states are not obligated to participate in the program of Aid to the Aged, Blind and Disabled. If, however, a state decides to participate, it receives federal funds but must comply with federal standards. The Court said that there was not a sufficient declaration of Congress's desire to permit suits against states in federal courts when states choose to receive

federal welfare monies. The Court concluded that the "mere fact that a State participates in a program through which the Federal Government provides assistance for the operation by the State of a system of public aid is not sufficient to establish consent on the part of the State to be sued in the federal courts." [17] *Id.* at 673.

In 1987, the Supreme Court explicitly overruled its earlier decision in *Parden*. In *Welch v. Texas Dep't of Highways and Pub. Transp.*, the Court considered whether the Jones Act can be the basis for state liability in federal court. 483 U.S. 468, 107 S. Ct. 2941, 97 L. Ed. 2d 389 (1987). The Jones Act is a federal statute creating remedies for injured seamen like those for injured railroad employees involved in the *Parden* case. Welch was injured while working for the State of Texas on the docks and sued to recover for his injuries.

The Supreme Court held that the Eleventh Amendment barred Welch's suit against Texas. The Court stated that "Congress has not expressed in unmistakable statutory language its intention to allow States to be sued in federal court under the Jones Act." *Id.* at 475. The Court emphasized that waiver will be found only if Congress clearly and unequivocally expresses its intent to make state liable. Moreover, the Court declared that P*arden* was overruled to the extent that it was inconsistent with its holding in *Welch*. *Id.* at 476.

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[17] The holding in Edelman has been reaffirmed and applied by the Court in rulings that a state does not waive its Eleventh Amendment immunity by receiving federal funds under the Rehabilitative Act of 1973, *see Atascadero State Hosp. v. Scanlon*, 473 U.S. 234, 87 L. Ed. 2d 171, 105 S. Ct. 3142 (1985), or by agreeing to be bound by the requirements of the federal Medicaid Act. *Florida Dep't of Health & Rehabilitative Servs. v. Florida Nursing Home Ass'n*, 450 U.S. 147, 67 L. Ed. 2d 132, 101 S. Ct. 1032 (1981).

In sum, the rarity of a state's constructive waiver of its Eleventh Amendment immunity cannot be overstated. *Edelman*, 415 U.S. at 653 ("Constructive consent is not a doctrine commonly associated with the surrender of constitutional rights . . . ."). Indeed, no Supreme Court decision except *Parden* itself, which was a five-four decision, has found that consent under the *Parden* theory.

With the foregoing as a backdrop, we conclude that the *Parden* doctrine cannot apply to eliminate Florida Prepaid's immunity under the Eleventh Amendment immunity because: (1) Florida Prepaid is essentially performing a role traditionally undertaken by state governments – making available affordable educational opportunities; and (2) in the wake of *Seminole Tribe*, Congress may no longer utilize its Article I powers to elicit a waiver of sovereign immunity as a condition for participating in a field subject to congressional regulation.

1. Florida Prepaid's Important Governmental Function

The Supreme Court has recognized that "education is perhaps the most important function of state government." *Brown v. Bd. of Educ.*, 347 U.S. 483, 493, 98 L. Ed. 873, 74 S. Ct. 686 (1954). More recently, the Court reaffirmed that education is an area "where States historically have been sovereign." *United States v. Lopez*, 514 U.S. 549, 131 L. Ed. 2d 626, 115 S. Ct. 1624, 1632 (1995). In *Lopez*, a case not involving the Eleventh Amendment, the Supreme Court struck down legislation founded on a sweeping interpretation of congressional power under the Interstate Commerce Clause. Clearly, education is uniquely important to the role of the states.

The Third Circuit also has acknowledged that providing education-related services is a core function of state government. In *Skehan v. State Sys. of Higher Educ.*, 815

F.2d 244 (3d Cir. 1987), the court held that the Pennsylvania State System of Higher Education, "a body corporate and politic" created by state law to administer educational institutions, *id.* at 247, was a state agency entitled to claim immunity under the Eleventh Amendment. *See id.* at 249. In so doing, the court observed: "Providing education has long been recognized as a function of state government." *Id.* at 248.

Of course, in this case, Florida Prepaid's supporting (and necessary) role in this activity is not within the exclusive province of the states. Indeed, there can be no doubt that Florida Prepaid and CSB, among others, are competing against one another for college-earmarked dollars. However, the mere fact that Florida Prepaid and private businesses offering prepaid tuition plans are similar in certain respects is not dispositive here.[18] *Cf. Close v. State of N.Y.*,

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[18] CSB impliedly suggests that the doctrine of judicial estoppel should bar Florida Prepaid from arguing that it is performing a core governmental function. *See* CSB's Reply Brief in Further Opposition to Defendant's Motions to Dismiss at 3 ("Florida Prepaid has acknowledged that this case involves a state's proprietary (as opposed to governmental) functions. Thus, Florida Prepaid's brief opposing [CSB's] motion to dismiss the libel counterclaims in the Lanham Act case, which the Court granted, bemoaned the state agency's vulnerability in this area . . . ."). However, there is nothing necessarily inconsistent with Florida Prepaid arguing that while it operates its Program like a competitive business, the Program itself is aimed at satisfying a core governmental function. Clearly, an aggressive marketing strategy or a desire for the Program to succeed does not transform an alter ego of the state into a private entity for purposes of Eleventh Amendment immunity. *See College Savings I*, 919 F. Supp. at 761 n.3 ("That a statement embodies or addresses a commercial matter certainly does not preclude a court from finding that it falls within the realm of public concern.") (citing, for example, *Curtis Publishing Co. v. Butts*, 388 U.S. 130, 162-70, 18 L. Ed. 2d 1094, 87 S. Ct. 1975 (1967) (Warren, C.J., concurring)). Accordingly, Florida Prepaid is not judicially estopped from claiming that it performs a core governmental function.

1996 U.S. Dist. LEXIS 12330, 1996 WL 481550, at *4 (N.D.N.Y. Aug. 19, 1996) (rejecting the notion that a state constructively consents to be sued by engaging in any area of activity that it does not exercise absolute control). Florida Prepaid was created by statute to perform a task found to be vital to the State of Florida:

> The Legislature recognizes that educational opportunity at the postsecondary level is a critical state interest. It further recognizes that educational opportunity is best ensured through the provision of postsecondary institutions that are geographically and financially accessible. Accordingly, it is the intent of the Legislature that a program be established through which many of the costs associated with postsecondary attendance may be paid in advance and fixed at a guaranteed level for the duration of undergraduate enrollment. It is similarly the intent of the Legislature to provide a program that fosters timely financial planning for postsecondary attendance and to encourage employer participation in such planning through program contributions on behalf of employees and the dependents of employees.

FLA. STAT. ANN. § 240.551(1). Certainly, providing a system to help people pay for the education of Florida citizens at Florida state universities and colleges is vital to Florida's attainment of its educational objectives in operating these institutions. Florida Prepaid provides a substantial benefit that directly and significantly promotes the educational objectives of the State of Florida. *See College Savings I*, 919 F. Supp. at 761 ("While Florida Prepaid purports to function in a proprietary capacity in administering the program, it nonetheless performs 'an essential government operation'

that has affected hundreds of thousands of citizens, within and outside of Florida.") (footnote omitted).

Moreover, we note that Florida Prepaid does not offer "investment contracts" to the public. Essentially, Florida Prepaid is offering contracts for college tuition and dormitory facilities. Unlike the program offered by CSB, the prepayment program offered by Florida Prepaid does not produce investment income. *See* FLA. STAT. § 240.551(6)(e)(1). According to section 5.01 of the Florida Prepaid Master Covenant, "this master covenant is not a debt instrument. Except for the circumstances in Paragraphs 5.02, 5.03 and 5.08, termination or default will entitle you [the purchaser] to a refund of the amount paid into the plan, minus reasonable administrative fees established by the Board. No interest will be refunded." Plainly, Florida Prepaid is not selling investment contracts, but rather highly specialized savings vehicles linked to the express purpose of providing financing for a higher education of Florida citizens at Florida schools:

> The State considers this an essential governmental operation to assist its citizens to access higher education. All legal and beneficial interests in the assets held by the trust fund are vested in the State for its exclusive benefit and the exclusive benefit of the colleges and universities; therefore, payments are guaranteed to be made on the beneficiary's behalf to the State college or university. Exercise of full benefits under the contract guarantees the beneficiary receipt of services and the beneficiary will not receive any funds.

Florida Prepaid Master Covenant § 5.08.

Based on the foregoing, the Court finds that Florida Prepaid is performing a role traditionally undertaken by state governments - making available affordable educational benefits. Therefore, the *Parden* doctrine, on its own terms, cannot apply to eliminate Florida Prepaid's immunity under the Eleventh Amendment.

2. *Parden* in the Wake of *Seminole Tribe*

Florida Prepaid argues in the alternative that, even assuming it is not engaged in "core governmental" activities, the doctrine of constructive waiver cannot survive the Supreme Court's recent decision in *Seminole Tribe of Florida v. Florida*, 134 L. Ed. 2d 252, 116 S. Ct. 1114 (1996) because the *Parden* doctrine presupposes that Congress has the authority pursuant to Article I of the Constitution to force a state to relinquish its Eleventh Amendment immunity as a condition of participating in a field subject to congressional regulation.[19] In order to address this contention, we turn first to the Supreme Court's decision in *Pennsylvania v. Union Gas*, 491 U.S. 1, 105 L. Ed. 2d 1, 109 S. Ct. 2273 (1989), which was expressly overruled by *Seminole Tribe*.

In *Union Gas*, a sharply divided Supreme Court found that Congress had the authority to abrogate States' Eleventh Amendment immunity when it enacted the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 ("CERCLA"). In the Union Gas plurality opinion, written by Justice Brennan, four members of the Court concluded that Congress has the authority to override States'

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[19] Of course, it would make no sense for Congress to impose a *Parden*-type waiver pursuant to Section 5 of the Fourteenth Amendment because Congress could utilize this same source of legislative power to eliminate immunity, making a finding of waiver unnecessary.

immunity when legislating pursuant to the Interstate Commerce Clause. 491 U.S. at 19. In Part III of its opinion, the plurality reasoned from language in *Parden* and *Employees* that "the power to regulate commerce includes the power to override States' immunity from suit . . . ." *Id.* at 14-15.

The deciding vote on the constitutional issue was cast by Justice White, who was somewhat less than clear about exactly what his concurrence meant. Justice White spent several pages explaining in partial dissent why he did not believe the statute clearly expressed a Congressional intent to abrogate the State's immunity, a position joined by three other Justices. Then, in part II of his concurrence, he devoted one short paragraph to the constitutional issue, saying only that "I agree with the conclusion reached by Justice Brennan in Part III of his opinion, that Congress has the authority under Article I to abrogate the Eleventh Amendment immunity of the States, although I do not agree with much of his reasoning." *Id.* at 57 (White, J., concurring in the judgment in part and dissenting in part).

Justice Scalia cast the deciding vote on the statutory construction issue, agreeing with Brennan's plurality opinion that the Congressional language at issue was sufficiently clear to override a state's Eleventh Amendment immunity assuming the authority to do so. *Id.* at 29 (Scalia, J., concurring in part and dissenting in part). However, joined by three other Justices, he dissented as to Congress's authority to abrogate when legislating pursuant to the Commerce Clause, lamenting that "instead of cleaning up the muddled Eleventh Amendment jurisprudence produced by *Hans*, the Court leaves that in place, and adds to the clutter the astounding principle that Article III limitations can be overcome by simply exercising

Article I powers." *Id.* at 44-45 (Scalia, J., concurring in part and dissenting in part).

Moreover, Justice Scalia, who formed part of the majority in *Seminole Tribe,*[20] argued that even viewing *Parden* as a waiver case could not save it from constitutional infirmity under the analysis that eventually triumphed in *Seminole Tribe*:

> It remains for me to consider whether the doctrine of waiver applies here. . .*Parden* is the only case in which we have held that the Federal Government can demand, as a condition to its permission of state action regulable under the Commerce Clause, the waiver of state sovereign immunity. Two terms ago, in *Welch*, we overruled *Parden* insofar as that case spoke to the clarity of language necessary to constitute such a demand. . . . We explicitly declined to address, however, the continued validity of *Parden's* holding that the Commerce Clause provided the constitutional power to make such a demand . . . . I would drop the other shoe.
>
> There are obvious and fatal difficulties in acknowledging such a power if no Commerce Clause power to abrogate state sovereign immunity exists. All congressional creations of private rights of action attach recovery to the defendant's commission of some act, or possession of some status, in a field where Congress has authority to regulate conduct. Thus, all federal prescriptions are, insofar as their prospective application is concerned, in a sense conditional, and – to the extent that the

[20] This portion of Justice Scalia's opinion was joined by Chief Justice Rehnquist, Justice O'Connor, and Justice Kennedy

> objects of the prescriptions consciously engage in the activity or hold the status that produces liability — can be redescribed as invitation to "waiver." . . . . At bottom, then, to acknowledge that the Federal Government can make the waiver of state sovereign immunity a condition to the State's action in a field that Congress has authority to regulate is substantially the same as acknowledging that the Federal Government can eliminate state sovereign immunity in the exercise of its Article I powers – that is, to adopt the very principle I have just rejected. There is little more than a verbal distinction between saying that Congress can make the Commonwealth of Pennsylvania liable to private parties for hazardous-waste cleanup costs on sites that the Commonwealth owns and operates, and saying the same thing but adding at the end "if the Commonwealth chooses to own and operate them." If state sovereign immunity has any reality, it must mean more than this.

Id. at 42-44 (Scalia, J., concurring in part and dissenting in part) (emphasis added).

When *Union Gas* is read in light of *Seminole Tribe*, wherein the Supreme Court overruled the principle that Congress may abrogate Eleventh Amendment immunity pursuant to its Article I powers, *see Seminole Tribe*, 116 S. Ct. at 1131, it is clear, by implication, that Congress may not employ its Article I powers to condition a state's participation in a particular market or industry on that state's waiver of its Eleventh Amendment immunity. *See id.* at 1128 ("As the dissent in *Union Gas* recognized, the plurality's conclusion – that Congress could under Article I expand the scope of the federal courts' jurisdiction under Article III– 'contradicted our

unvarying approach to Article III as setting forth the exclusive catalog of permissible federal court jurisdiction.'") (quoting *Union Gas*, 491 U.S. at 39) (Scalia, J., concurring in part and dissenting in part)).

As the *Union Gas* Court noted, *Parden* was based on the conclusion that "the States surrendered a portion of their sovereignty when they granted Congress the power to regulate commerce," and that "by empowering Congress to regulate commerce, . . . the States necessarily surrendered any portion of their sovereignty that would stand in the way of such regulation." 491 U.S. at 14 (quoting *Parden*, 377 U.S. at 191, 192). This theory of surrender, however, has been explicitly rejected by the Court in *Seminole Tribe*. Indeed, the *Seminole Tribe* Court stated, in no uncertain terms, that "the Eleventh Amendment restricts the judicial power under Article III, and Article I cannot be used to circumvent the constitutional limitations placed upon federal jurisdiction." 116 S. Ct. at 1131-32. It necessarily follows, therefore, that *Parden's* underpinnings are no longer viable. Congress cannot achieve indirectly, through "waiver," what it cannot do directly, through express abrogation. "If state sovereign immunity has any reality, it must mean more than this." *Union Gas*, 491 U.S. at 44 (Scalia, J., concurring in part and dissenting in part). Thus, we conclude that *Parden* has been overruled by implication *by Seminole Tribe* to the extent that *Parden* held that Congress, acting pursuant to the powers conferred upon it in Article I of the Constitution, may explicitly condition a state's participation

in a particular market on its waiver of immunity from suit.[21] Accordingly, the *Parden* doctrine cannot apply to eliminate Florida Prepaid's immunity under the Eleventh Amendment.

E. ABROGATION

Lastly, we consider the argument that Congress has abrogated the States' Eleventh Amendment immunity when amending the Patent Act and the Lanham Act. When determining whether Congress has abrogated the States' Eleventh Amendment immunity, we must conduct a two-part inquiry: "first, whether Congress has 'unequivocally expressed its intent to abrogate the immunity,' and second, whether Congress has acted 'pursuant to a valid exercise of power.'" *Seminole Tribe*, 116 S. Ct. at 1123 (quoting *Green v. Mansour*, 474 U.S. 64, 68, 88 L. Ed. 2d 371, 106 S. Ct. 423 (1985)). Thus, we must consider each of these questions in turn.

1. Unequivocal Expression of Intent to Abrogate Immunity

"Congress' intent to abrogate the States' immunity from suit must be obvious from 'a clear legislative statement.'" 116 S. Ct. at 1123 (quoting *Blatchford v. Native Village of Noatak*

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[21] The Government incorrectly asserts that "the Supreme Court has referred favorably to the waiver aspect of *Parden*" in *Seminole Tribe*. Intervenor's Brief at 9. The basis for this assertion is the rather offhand observation that *Parden* represents "the unremarkable . . . proposition that the States may waiver their sovereign immunity." *Seminole Tribe*, 116 S. Ct. at 1128. However, when this comment is read in light of *Seminole Tribe*'s holding that the bounds of Article III may only be expanded by Congress when its enacts appropriate legislation pursuant to § 5 of the Fourteenth Amendment, it is clear that the Court's passing reference to *Parden* can only mean that actual, deliberate waiver by a state remains possible. The Court was careful not to endorse the mechanism for waiver created by *Parden*, that is, the congressional regulatory approach.

and Circle Village, 501 U.S. 775, 786, 115 L. Ed. 2d 686, 111 S. Ct. 2578 (1991)). "A general authorization for suit in federal court is not the kind of unequivocal statutory language sufficient to abrogate the Eleventh Amendment." *Atascadero State Hosp.*, 473 U.S. at 246; accord *Blatchford*, 501 U.S. at 786 n.4 ("The fact that Congress grants jurisdiction to hear a claim does not suffice to show Congress has abrogated all defenses of that claim."). Thus, "Congress may abrogate the States' constitutionally secured immunity from suit in federal court only by making its intention unmistakably clear in the language of the statute." *Dellmuth v. Muth*, 491 U.S. 223, 227-28, 105 L. Ed. 2d 181, 109 S. Ct. 2397 (1989); *see* also Welch, 483 U.S. at 474.

a. Abrogation of Immunity Under the Patent and Plant Variety Protection Remedy Clarification Act

The Patent and Plant Variety Protection Remedy Clarification Act, Pub.L. No. 102-560, 106 Stat. at 4230, which amended the Patent Act, provides:

> Any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his official capacity, shall not be immune, under the eleventh amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in Federal court by any person, including any governmental or non-governmental entity, for infringement of a patent . . . or for any other violation under this title.

Pub.L. No. 102-560, § 2(a)(2), 106 Stat. at 4230 (codified at 35 U.S.C. § 296(a)). This language is even clearer than that which the Supreme Court recently found sufficient in *Seminole Tribe*, where the statute did not explicitly refer to

the Eleventh Amendment. *See Seminole Tribe*, 116 S. Ct. at 1123-24. Thus, the Patent Act provision challenged here is more than clear enough to abrogate the States' Eleventh Amendment immunity for suit thereunder in federal court. *See Genentech, Inc. v. Eli Lilly & Co.*, 998 F.2d 931, 941-42 (Fed. Cir. 1993) (finding that the current Patent Act is sufficiently clear to abrogate state immunity), *cert. denied sub. nom. Regents of Univ. of Ca. v. Genentech, Inc.*, 510 U.S. 1140, 127 L. Ed. 2d 434, 114 S. Ct. 1126 (1994)).

b. Abrogation of Immunity Under the 1992 Trademark Remedy Clarification Act

The 1992 Trademark Remedy Clarification Act, Pub.L. 102-542, 106 Stat. 3567 (1992), which amended the Lanham Act, provides:

> As used in this subsection, the term "any person" includes any State, instrumentality of a State or employee of a State or instrumentality of a State acting in his or her official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the same provisions of this Act in the same manner and to the same extent as any nongovernmental entity.

Pub.L. No. 102-542, 106 Stat. 3567 (1992). This language is also an unequivocal expression of Congress's intent to abrogate the Eleventh Amendment. *See Chavez v. Arte Publico Press*, 59 F.3d 539, 546 (5th Cir. 1995) (noting that the Lanham Act was "recently amended to express Congress's intent to abrogate State immunity from suit . . . ."), *cert. granted and judgment vacated sub nom. Univ. of Houston v. Chavez*, 134 L. Ed. 2d 772, 116 S. Ct. 1667, *cert. denied*, 134 L. Ed. 2d 776, 116 S. Ct. 1672 (1996).

2. Abrogation Made Under a Proper Exercise of Authority

Because Congress clearly and unequivocally expressed its intention to abrogate Eleventh Amendment immunity both under the Patent Act and the Lanham Act, the Court must next consider whether this abrogation was done under a proper exercise of Congress's authority. As noted above, after *Seminole Tribe*, the only remaining authority for Congressional abrogation of the States' immunity is the enforcement provision of the Fourteenth Amendment. 116 S. Ct. at 1128.

Section 5 of the Fourteenth Amendment provides that "Congress shall have the power to enforce, by appropriate legislation, the provisions of this article." U.S. CONST. amend. XIV, § 5. The Thirteenth, Fourteenth and Fifteenth Amendments "were specifically designed as an expansion of federal power and an intrusion on state sovereignty." *City of Rome v. United States*, 446 U.S. 156, 179, 64 L. Ed. 2d 119, 100 S. Ct. 1548 (1980).

The Supreme Court first considered the meaning of Section 5 in *Ex parte Virginia*, 100 U.S. (10 Otto) 339, 25 L. Ed. 676 (1879). There, the Court upheld the constitutionality of an act prohibiting the disqualification of grant or petit jurors on account of race. *Id.* at 345-46. The Court declined to read narrowly the power granted by Section 5:

> Whatever legislation is appropriate, that is, adapted to carry out the objects the amendments have in view, whatever tends to enforce submission to the prohibitions they contain, and to secure to all persons the enjoyment of perfect equality of civil rights and the equal protection of the laws against

> State denial or invasion, if not prohibited, is brought within the domain of congressional power.

Id.

The civil rights legislation of the 1960s again raised questions regarding the power of Congress under the Civil Rights Amendments. In *Katzenbach v. Morgan*, 384 U.S. 641, 648, 16 L. Ed. 2d 828, 86 S. Ct. 1717 (1966), the Court rejected the argument that under Section 5 Congress could only prohibit acts that would violate the substantive provisions of the Fourteenth Amendment. Referring to *McCulloch v. Maryland*, 17 U.S. (4 Wheat.) 316, 421, 4 L. Ed. 579 (1819), the Court held that the inquiry into what is "appropriate legislation" under Section 5 is whether the statute "may be regarded as an enactment to enforce [the Fourteenth Amendment], whether it is 'plainly adapted to that end' and whether it is not prohibited by but is consistent with 'the letter and spirit of the constitution.'" 384 U.S. at 651.

Congress has the power to enforce all the provisions of the Fourteenth Amendment, not just the Equal Protection Clause. *United States v. Price*, 383 U.S. 787, 789 & n.2, 16 L. Ed. 2d 267, 86 S. Ct. 1152 (1966) (noting that Section 5 empowers Congress to enforce "every right guaranteed by the Due Process Clause of the Fourteenth Amendment"); *Flores v. City of Boerne*, 73 F.3d 1352, 1358 (5th Cir.), *cert. granted*, 117 S. Ct. 293 (1996) (same); *see also* CONG. GLOBE, 42d Cong., 1st Sess. App. at 83 (1871) ("The Fourteenth Amendment closes with the words, 'the Congress shall have power to enforce, by appropriate legislation, the provisions of this article' – the whole of it, sir; all of the provisions of the article; every section of it.") (statement of Rep. Bingham). "We reject the notion that there is any relevant hierarchy of constitutional rights within

the Fourteenth Amendment."[22] *Flores*, 73 F.3d at 1358 (citing *Caplin & Drysdale, Chartered v. United States*, 491 U.S. 617, 628, 105 L. Ed. 2d 528, 109 S. Ct. 2646, 109 S. Ct. 2667 (1989)).

While Congress's enforcement power is broad, however, the Court in *Oregon v. Mitchell*, 400 U.S. 112, 27 L. Ed. 2d 272, 91 S. Ct. 260 (1970), pointed out that it is not unlimited:

> As broad as the congressional enforcement power is, it is not unlimited. Specifically, there are at least three limitations upon Congress' power to enforce the guarantees of the Civil War Amendments. First, Congress may not by legislation repeal other provisions of the Constitution. Second, the power granted to Congress was not intended to strip the States of their power to govern themselves or to convert our national government of enumerated powers into a central government of unrestrained authority over every inch of the whole Nation. Third, Congress may only "enforce" the provisions of the amendments and may do so only by "appropriate legislation." Congress has no power under the enforcement sections to undercut the amendments' guarantees of personal equality and freedom from discrimination, or to undermine those

[22] Thus, to the extent that Florida Prepaid argues that the Fourteenth Amendment must be restricted to its historical motivation, this argument must be rejected. *See Flores*, 73 F.3d at 1358. But cf. *Wilson-Jones v. Caviness*, 99 F.3d 203, 210 (6th Cir. 1996) ("Examining the FLSA itself, there is no sufficiently strong logical connection between the aim of the act – to increase the wages and shorten the hours of certain employees – and central, obvious Fourteenth Amendment concerns.").

> protections of the Bill of Rights which we have held the Fourteenth Amendment made applicable to the States.

Id. at 128-29 (opinion of Black, J.). *Cf. Wilson-Jones*, 99 F.3d at 209 ("It is clear to us that these three Katzenbach factors cannot be kept so permissive as to make them collapse into the 'rationally related' test generally used for the enforcement clauses of the other constitutional amendments. . . . If we were to say that an act is valid if it is rationally related to achieving equal protection of the laws, then § 5 becomes a license to Congress to pass any sort of legislation whatsoever.").

a. Patent Act

Whether a statute is "appropriate legislation" for enforcing the Fourteenth Amendment is subject to a deferential standard. "Correctly viewed, [Section 5 of the Amendment] is a positive grant of legislative power authorizing Congress to exercise its discretion in determining whether and what legislation is needed to secure the guarantees of the Fourteenth Amendment." *Katzenbach*, 384 U.S. at 651. Thus, if rights protected by the Patent Act are correctly considered "property," legislation making the states liable in federal court for violating that statute would "plainly" be "appropriate" for enforcing the Fourteenth Amendment. *See id.* The ultimate constitutional issue in this case is, therefore, whether the interests sought to be protected by the

Patent Act are "property" for purposes of the Fourteenth Amendment.[23]

"That a patent is property, protected against appropriation both by individuals and by government, has long been settled." *Hartford-Empire Co. v. United States*, 323 U.S. 386, 415, 89 L. Ed. 322, 65 S. Ct. 373 (1945); *Jacobs Wind Elec. Co. v. Dep't of Transp.*, 626 So. 2d 1333, 1337 (Fla. 1993). The common law protects patents as property rights, and patents have traditionally been classified as one form of "intellectual property." *See Markman v. Westview Instruments, Inc.*, 134 L. Ed. 2d 577, 116 S. Ct. 1384, 1390-92 (1996) (discussing common law of patent enforcement). Indeed, the Patent Act explicitly recognizes that

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[23] The legislative history of the Patent Act amendments states that they were enacted under the Commerce Clause, the Patent Clause and the Fourteenth Amendment. *See* S. Rep. No. 102-280, 102d Cong., 2d Sess. 7-8 (1992), *reprinted in* 1992 U.S.C.C.A.N. 3087, 3093-94. Although such a recitation of authority may be helpful in interpreting legislation, it is not required for its validity. *See F.C.C. v. Beach Communications, Inc.*, 508 U.S. 307, 315, 124 L. Ed. 2d 211, 113 S. Ct. 2096 (1993) (Court "never require[s] a legislature to articulate its reasons for enacting a statute"). Nor is a statute necessarily rendered invalid when Congress gratuitously recites its bases, and one or more of those bases turns out to be improper: If federal legislation can be upheld as an exercise of federal power under any provision of the Constitution, the courts are bound to uphold it. *See Usery v. Allegheny County Inst. Dist.*, 544 F.2d 148, 155 (3d Cir. 1976), *cert. denied sub nom. Allegheny County Inst. Dist. v. Marshall*, 430 U.S. 946, 51 L. Ed. 2d 793, 97 S. Ct. 1582 (1977). For the same reasons, that a statute was originally enacted under one provision of the Constitution should not foreclose relying on a different provision to enact an amendment to the statute--whether or not the amendment itself refers to that provision. *See Ramirez v. Puerto Rico Fire Serv.*, 715 F.2d 694, 698 (1st Cir. 1983) ("The omission of any ritualistic incantation of powers by the Congress is not determinative, for there is no requirement that the statute incorporate buzz words such as 'Fourteenth Amendment' or 'section 5' . . . .").

patents "have the attributes of personal property." 35 U.S.C. § 261; *see* also *Carl Schenck, A.G. v. Nortron Corp.*, 713 F.2d 782, 786 n.3 (Fed. Cir. 1983) ("The patent right is but the right to exclude others, the very definition of 'property.'").

In *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 599 (Fed. Cir. 1985), for example, the plaintiffs alleged that certain procedures of the Patent and Trademark Office violated the Fifth Amendment, which, like the Fourteenth Amendment, forbids the government from depriving persons of property without due process of law. *Id.* at 596. Although the court ultimately rejected the challenge, it began by observing that the constitutional provision did apply:

> It is beyond reasonable debate that patents are property. In *Consolidated Fruit-Jar Co. v. Wright*, [94 U.S. (4 Otto) 92, 24 L. Ed. 68] (1876) the Supreme Court stated:
>
> > a patent for an invention is as much property as a patent for land. The right rests on the same foundation and is surrounded and protected by the same sanctions.
>
> 758 F.2d at 599.

Furthermore, the unlicensed use of a patented invention by the United States constitutes an uncompensated taking of the patentee's property, in violation of the Fifth Amendment. *See James v. Campbell*, 104 U.S. 356, 357-58, 26 L. Ed. 786 (1881) (equating invention patent with land patent for purposes of takings clause); *Genentech, Inc. v. Regents of Univ. of Cal.*, 939 F. Supp. 639, 643 (S.D. Ind. 1996) ("[a] patent is a protectable property right and to permit [a] State to infringe that property right without redress for the patent owner would deprive [the] owner of property without due

process of law."); *see* also *Hughes Aircraft Co. v. United States*, 86 F.3d 1566, 1571 (Fed. Cir. 1996); accord Jacobs Wind Elec. Co., 626 So. 2d at 1337 (because a patent is property, the holder can assert takings and conversion claims).

Notwithstanding this precedent, Florida Prepaid raises several unpersuasive arguments why the Fourteenth Amendment cannot justify the statute challenged here. Specifically, defendant contends that: (1) the Fourteenth Amendment can only be used to remedy "insidious discrimination"; (2) the states did not relinquish immunity for patent actions by ratifying the Fourteenth Amendment; (3) the Fourteenth Amendment does not require compensation for merely negligent conduct; and (4) the Supreme Court's decision in *Seminole Tribe* forecloses reliance on the Fourteenth Amendment to abrogate state immunity under this statute. These arguments will be addressed *seriatim*.

Defendant first argues that the Fourteenth Amendment can be used only to remedy the kind of "insidious discrimination" against the newly-freed slaves that prompted its adoption. *See* Defendant's Patent Brief at 16; Defendant's Patent Reply Brief at 11, 16. However, the language of the Amendment reaches far beyond that original objective, and the Supreme Court has repeatedly applied it, according to its terms, outside the context of civil rights. *See, e.g., Tulsa Professional Collection Servs., Inc. v. Pope*, 485 U.S. 478, 485, 99 L. Ed. 2d 565, 108 S. Ct. 1340 (1988) (creditor's right to notice from debtor's estate); *Cleveland Bd. of Educ. v. Loudermill*, 470 U.S. 532, 538-39, 84 L. Ed. 2d 494, 105 S. Ct. 1487 (1985) (right to continued employment); *Mennonite Bd. of Missions v. Adams*, 462 U.S. 791, 798-800, 77 L. Ed. 2d 180, 103 S. Ct. 2706 (1983) (mortgagee's right to notice before tax sale of mortgaged realty); *Mathews v.*

Eldridge, 424 U.S. 319, 332, 47 L. Ed. 2d 18, 96 S. Ct. 893 (1976) (right to continued receipt of disability benefits). Indeed, if defendant were correct that the Fourteenth Amendment must be restricted to its historical motivation, then the Amendment could be used only to prevent discrimination on the basis of race and not on any other basis, such as gender or national origin. *See Slaughter-House Cases*, 83 U.S. (16 Wall.) 36, 71-72, 21 L. Ed. 394 (1872).

Second, Florida Prepaid contends that the states could not have relinquished immunity for patent actions by ratifying the Fourteenth Amendment, because they had already surrendered "all power over patents" in ratifying Article I of the Constitution. *See* Defendant's Patent Brief at 9. Defendant misses the point. Although the states, through Article I, relinquished the power to grant patents, they did not thereby surrender their immunity against federal suit for depriving persons of property without due process of law. *See* U.S. CONST. art. I, § 8, cl. 8. This they did surrender, however, in ratifying the Fourteenth Amendment.

Third, defendant points out that patent infringement is a tort for which the patentee need not prove specific intent, whereas the Fourteenth Amendment does not require compensation for merely negligent conduct. *See* Defendant's Patent Brief at 12-14 (citing *Daniels v. Williams*, 474 U.S. 327, 88 L. Ed. 2d 662, 106 S. Ct. 662 (1986) (rejecting prisoner's Fourteenth Amendment claim for injury caused by deputy's negligent placement of pillow)). The principal weakness of this argument is that CSB's patent infringement action does not seek compensation for a violation of the Fourteenth Amendment. The issue here is not whether the defendant committed a constitutional tort, but whether, in enacting "appropriate legislation" to enforce the Fourteenth

Amendment, Congress can make the states amenable to suit in federal court for allegedly violating certain property rights. Moreover, Congress's enforcement power under Section 5 is not, in fact, limited to intentional violations, but includes actions that have only the effect (but not the intent) of violating the Fourteenth Amendment. *See Flores*, 73 F.3d at 1359-60. [24]

Finally, in an effort to avoid the conclusion that the challenged provisions of the Patent Act are valid exercises of Fourteenth Amendment power, Florida Prepaid asserts that the Supreme Court's decision in *Seminole Tribe* forecloses reliance on the Fourteenth Amendment to abrogate state immunity under this statute. Specifically, defendant (1) relies on a passage from Justice Stevens' dissenting opinion in *Seminole Tribe* and on the majority's supposed response to that passage; (2) contends that *Seminole Tribe's* overruling of a prior decision (*Union Gas*) also overruled dictum in that earlier decision; and (3) asserts that the Fourteenth Amendment does not give Congress power to abrogate state immunity for violations of the Patent Act because *Seminole Tribe* fails to say that it does.

First, Florida Prepaid attempts to deduce support from the statement of a dissenting Justice in *Seminole Tribe*, coupled with the majority's partial reaction to that statement. In an opinion in which no other Justice joined, Justice Stevens stated that the Court's decision would "prevent[] Congress from providing a federal forum for a broad range of actions against States, from those sounding in copyright and patent law, to those concerning bankruptcy, environmental law, and the regulation of our vast national

[24] In any event, the plaintiff here alleges that defendant is infringing plaintiff's patent "willfully." *See* Patent Compl. ¶ 7.

economy." *Seminole Tribe*, 116 S. Ct. at 1134 (Stevens, J., dissenting). Florida Prepaid contends that "the majority did not dispute" this statement, *see* Defendant's Patent Brief at 11, 14; indeed, relying on a footnote in the majority opinion, defendant goes so far as to say that "the majority agreed that the decision would prevent patent suits against the states." *Id.* at 14 (emphasis added) (citing *Seminole Tribe*, 116 S. Ct. at 1131 n.16).

Nothing of the sort follows from *Seminole Tribe*. To begin with, the footnote to which defendant refers says nothing about the Patent Act: "Justice Stevens understands our opinion to prohibit federal jurisdiction over suits to enforce the bankruptcy, copyright, and antitrust laws against the States." *See Seminole Tribe*, 116 S. Ct. at 1131 n.16. Furthermore, the majority's footnote does not actually respond to Justice Stevens's statement as to the effect of the Court's holding on other statutes. Rather, it only attempts to undercut the impact of Justice Stevens's contention, based partly on the fact that the statutes referred to did not expressly abrogate state immunity. *See id.* The 1992 amendments to the Patent Act, however, have removed any doubt in that regard as far as this statute is concerned. The Court's failure to respond to Justice Stevens's assertion does not, contrary to defendant's argument, manifest an "indifference to constitutional doctrine" of the part of the majority. *See* Defendant's Patent Reply Brief at 8. Rather, the Court frequently leaves unanswered questions that are suggested by the facts but not presented for decision – including questions that dissenting and concurring opinions attempt to answer. *See, e.g., McNeal v. Culver*, 365 U.S. 109, 117, 5 L. Ed. 2d 445, 81 S. Ct. 413 (1961) ("The question treated in the separate concurring opinion only lurks in the record, as it was not raised, briefed or argued here, and therefore we do not reach or express any views upon it.").

Defendant also contends that *Seminole Tribe* forecloses reliance on the Fourteenth Amendment because the Court's earlier decision in *Union Gas* had observed that the Fourteenth Amendment gave Congress power to abrogate state immunity, and *Seminole Tribe* expressly overruled *Union Gas*. *See* Defendant's Patent Brief at 13; *see also Union Gas*, 491 U.S. at 15-16. The passage from *Union Gas* to which defendant refers, however, merely recited a proposition that had been established by other decisions and that, particularly in light of *Seminole Tribe*, remains valid today. *See Union Gas*, 491 U.S. at 7 (*citing Atascadero State Hosp.*, 473 U.S. at 242); *see also Fitzpatrick*, 427 U.S. at 456. *Seminole Tribe* only overruled the holding in *Union Gas*, which was that Congress could not abrogate state immunity under the Commerce Clause. *See Seminole Tribe*, 116 S. Ct at 1128; *Union Gas*, 491 U.S. at 19-20.

Finally, Florida Prepaid suggests that if the Fourteenth Amendment gave Congress power to abrogate state immunity for violations of the Patent Act, then the Supreme Court would surely have said so in *Seminole Tribe*. *See* Defendant's Patent Brief at 12-13. Under American jurisprudence, however, the opposite is true. There was no reason for the Court to comment on the authority for abrogating immunity under a statute that was not before the Court. *See Seminole Tribe*, 116 S. Ct. at 1125 (petitioner did not challenge appellate court's conclusion that statute was not enacted pursuant to the Fourteenth Amendment). To do otherwise would have been to issue an advisory opinion. *See Preiser v. Newkirk*, 422 U.S. 395, 401, 45 L. Ed. 2d 272, 95 S. Ct. 2330 (1975) (lack of power to render advisory opinions). Accordingly, *Seminole Tribe* does not foreclose reliance on the Fourteenth Amendment.

In sum, a patent is "property" for purposes of the Fourteenth Amendment, and Congress can, under that

Amendment, abrogate Eleventh Amendment immunity for claims under the Patent Act. Moreover, Congress has the power to enforce all of the provisions of the Fourteenth Amendment, including the Due Process Clause. It necessarily follows, therefore, that Congress may, pursuant to Section 5 of the Fourteenth Amendment, enact appropriate legislation to make states amenable to suit in federal court for allegedly depriving patentees of their patent property without compensation and without due process of law. Accordingly, this Court finds that the Patent Act amendments, which abrogate the States' Eleventh Amendment immunity, are "appropriate legislation" under Section 5 of the Fourteenth Amendment. As such, defendant's motion to dismiss is denied.

b. Lanham Act

The final issue before this Court is whether the interests sought to be protected by the "false advertising prong" of the Lanham Act are "property" for purposes of the Fourteenth Amendment.[25] *See Katzenbach*, 384 U.S. at 651. As

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[25] The false advertising prong of the Lanham Act is separate and distinct from the trademark infringement prong. *See, e.g., Stanfield v. Osborne Indus.*, 52 F.3d 867, 873 (10th Cir.) (finding "two distinct bases of liability under [15 U.S.C.] section 1125"), *cert. denied*, 133 L. Ed. 2d 217, 116 S. Ct. 314 (1995); *Agee v. Paramount Communications, Inc.*, 853 F. Supp. 778, 790 (S.D.N.Y. 1994) (noting that "section 43(a) [of the Lanham Act] provides two distinct causes of action"), *rev'd on other grounds*, 59 F.3d 317 (1995).

In the present matter, the Lanham Act claims brought against Florida Prepaid are complaints about alleged false advertising:

> This action for false advertising and unfair competition arises under the trademark laws of the United States, 15 U.S.C. §§ 1051 *et seq.*, and the common law of unfair competition, and concerns material misrepresentations made in connection with the advertising and promotion of the Florida Prepaid College Program.

Lanham Act Compl. ¶ 1. CSB has not asserted any claims for trademark infringement.

a threshold matter, however, we must first determine what interests are protected by this prong of the Lanham Act. [26]

The Lanham Act was enacted "to protect persons engaged in such commerce against unfair competition." 15 U.S.C. § 1127; *see Seven-Up Co. v. Coca-Cola Co.*, 86 F.3d 1379, 1382 (5th Cir. 1996). Section 43(a) of the Lanham Act provides in relevant part that:

> Any person who . . . in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or another person's goods, services, or commercial activities shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

15 U.S.C. § 1125(a).

Thus, the text of the statute makes clear that the false advertising prong of Section 43(a) is "designed to protect the right of the consumer to be told the truth." 3 MCCARTHY ON TRADEMARKS § 27.04[1][b] at 27-39); *American Greetings Corp. v. Dan-Dee Imports, Inc.*, 619 F. Supp. 1204, 1218 (D.N.J. 1985) (same); *see also Castrol, Inc. v. Pennzoil Co.*, 987 F.2d 939 (3d Cir. 1993) ("Because honesty and fair play are prominent arrows in America's quiver of commercial and personal ideals, Congress enacted Section 43(a) of the Lanham Act 'to stop the kind of unfair competition that consists of lying about goods or services.'"). "That is, 'Quite clearly, the Congressional intention was to allow a private suit by a competitor to stop the kind of unfair competition

[26] The legislative history of the Lanham Act amendments states that they were enacted under the Commerce Clause and the Fourteenth Amendment. *See* S. Rep. No. 102-280, 102d Cong., 2d Sess. 7-8 (1992), *reprinted in* 1992 U.S.C.C.A.N. 3087, 3093-94.

that consists of lying about goods or services, when it occurs in interstate commerce.'" 3 MCCARTHY ON TRADEMARKS § 27.04[1][b] at 27-39 (citing *Skil Corp. v. Rockwell Int'l Corp.*, 375 F. Supp. 777, 784 (N.D. Ill. 1974)).

Having determined that the false advertising prong of the Lanham Act essentially protects the "right to be free from false advertising," we now must ask whether this right is "property" for purposes of the Fourteenth Amendment. Clearly it is not. An interest in being free from alleged false advertising simply does not qualify as a property right for purposes of the Due Process Clause of the Fourteenth Amendment, or indeed for any other purpose. [27] However laudable Congress's purpose may be, *see Coca-Cola Co. v. Procter & Gamble Co.*, 822 F.2d 28, 31 (6th Cir. 1987), the false advertising prong of the Lanham Act does not implicate any of the substantive guarantees of the Fourteenth Amendment, and therefore cannot be the basis for the abrogation of Eleventh Amendment immunity.

Moreover, none of the cases cited by plaintiff, *see* CSB's Lanham Act Brief at 33-36, holds that the "right" to be free from a competitor's alleged false advertising constitutes a property right [28] *L'Aiglon Apparel, Inc. v. Lana Lobell, Inc.*, 214 F.2d 649 (3d Cir. 1954), did not involve simple false advertising of the type alleged here, but rather a claim that the defendant had used a picture of the plaintiff's dress in its promotions. *See id.* at 649-50. Moreover, the opinion of

[27] We have uncovered no precedent, federal or state, even discussing whether the right to be free of unfair competition is "property."

[28] General discussions of "the Lanham Act" or "unfair competition" are insufficient. This case involves only a claim for false advertising by a competitor, not the other varieties of Lanham Act infringement claims or unfair competition claims that plaintiff's cases consider.

the Third Circuit said nothing about any property rights. Similarly, in *AT & T v. Winback & Conserve Program, Inc.*, 42 F.3d 1421 (3d Cir. 1994), *cert. denied*, 131 L. Ed. 2d 757, 115 S. Ct. 1838 (1995), the court noted, "AT & T's allegations are an amalgam of a classic section 43(a) claim alleging misuse of a mark, a claim of false advertising pursuant to 15 U.S.C. § 1125(a)(2), and a claim of passing off." *Id.* at 1428 n.9. Again, even in the language quoted by CSB, *see* CSB's Lanham Act Brief at 34-35, the court mentioned only causes of action for unfair competition, and said nothing about "property."

Plaintiff's reference to *SK & F Co. v. Premo Pharmaceutical Lab., Inc.*, 625 F.2d 1055 (3d Cir. 1980) is also unavailing. SK & F Co., the court was a trade dress case in which the defendant allegedly used the same color for its pills as the plaintiff manufacturer did. *See id.* at 1057-59. The court discussed the tort of unfair competition, but said nothing about property rights. Moreover, *International News Service v. Associated Press*, 248 U.S. 215, 63 L. Ed. 211, 39 S. Ct. 68 (1918), did not involve false advertising, but rather infringement so severe that it amounted to theft. The defendant was accused of "pirating" the plaintiff's news stories through illegal copying, the bribing of employees, and other nefarious means. *See id.* at 231. Finally, the right of publicity, whether of a "human cannonball" or not, *see Zacchini v. Scripps-Howard Broadcasting Co.*, 433 U.S. 562, 53 L. Ed. 2d 965, 97 S. Ct. 2849 (1977), has nothing to do with the instant case. Florida Prepaid is alleged to have made misleading statements about its own program, not to have misappropriated some element of plaintiff's product. Thus, *Zacchini* is also inapposite.

Finally, we are unaware of any authority suggesting that Congress may, by simple fiat, abruptly declare that a simple

statutory cause of action, which traditionally has not been understood to involve any kind of property, now encompasses a "property right" to which the Fourteenth Amendment applies. Indeed, if Congress has such power, it could easily "reverse" the outcome in *Seminole Tribe* by inserting into some staff report a reference regarding the importance of using the Fourteenth Amendment to protect the "right" to have a state negotiate over a gaming compact. To quote Justice Scalia, "If state sovereign immunity has any reality, it must mean more than this." *Union Gas*, 491 U.S. at 44 (concurring in part and dissenting in part).

We conclude by reiterating that this case does not involve property that Congress may protect under the Fourteenth Amendment. Congress has no power, under the Fourteenth Amendment or any other provision of the Constitution, to strip the states of their Eleventh Amendment immunity and subject them to suits in federal court for false advertising. Accordingly, the Trademark Remedy Clarification Act is unconstitutional as applied in this case, and plaintiff's Lanham Act Claim must be dismissed for lack of subject matter jurisdiction. Furthermore, because there has been no suggestion that Florida Prepaid's Eleventh Amendment immunity has been – or could be – stripped with respect to CSB's common law unfair competition claim, this claim must also fail and plaintiff's Lanham Act Complaint is dismissed in its entirety.

III. CONCLUSION

For the foregoing reasons, the Court will: (1) deny defendant's motion to dismiss plaintiff's Patent Act Claim; (2) grant defendant's motion to dismiss plaintiff's Lanham Act Claim; and (3) dismiss plaintiff's Lanham Act Complaint in its entirety. An appropriate Order is filed herewith.

ORDER

For the reasons set forth in this Court's Memorandum Opinion,

IT IS this 13th day of DECEMBER, 1996

ORDERED that defendant's motion to dismiss plaintiff's Patent Infringement Claim (Civ. No. 94-5610) pursuant to FED. R. CIV. P. 12(h)(3) be and is hereby DENIED; and it is further ORDERED that defendant's motion to dismiss plaintiff's Lanham Act Claim (Civ. No. 95-4516) be and is hereby GRANTED; and it is further

ORDERED that plaintiff's Lanham Act Complaint (Civ. No. 95-4516) be and is hereby DISMISSED in its ENTIRETY.

APPENDIX C

UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

Nos. 97-5055 and 97-5086

COLLEGE SAVINGS BANK,
Appellant in No. 97-5055

UNITED STATES OF AMERICA,
Intervenor-Plaintiff in D.C.

v.

FLORIDA PREPAID POSTSECONDARY
EDUCATION EXPENSE BOARD

COLLEGE SAVINGS BANK

UNITED STATES OF AMERICA,
Intervenor-Plaintiff in D.C.

v.

FLORIDA PREPAID POSTSECONDARY
EDUCATION EXPENSE BOARD

United States of America,

Appellant in No. 97-5086

On Appeal from the United States District Court
for the District of New Jersey
(D.C. Civ. No. 95-4516)

SUR PETITION FOR REHEARING

BEFORE BECKER, *Chief Judge*, and SLOVITER, STAPLETON, MANSMANN, GREENBERG, SCIRICA, COWEN, NYGAARD, ALITO, ROTH, LEWIS, MCKEE, RENDELL, and ALARCON*, *Circuit Judges*

The petition for rehearing filed by the appellant, College Savings Bank, in the above captioned matter having been submitted to the judges who participated in the decision of this court and to all the other available circuit judges of the court in regular active service, and no judge who concurred in the decision having asked for rehearing, and a majority of the circuit judges of the circuit in regular active service not having voted for rehearing by the court en banc, the petition for rehearing is denied.

BY THE COURT:

[signature illegible]
Circuit Judge

DATED: FEB 17 1998

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* Honorable Arthur L. Alarcon, Senior Judge of the United States Court of Appeals for the Ninth Circuit, sitting by designation. Judge Alarcon's vote is limited to the application before the original panel.

APPENDIX D

United States Court of Appeals for the Federal Circuit

97-1246

COLLEGE SAVINGS BANK,
Plaintiff-Appellee,

and

THE UNITED STATES,
Plaintiff-Appellee,

v.

FLORIDA PREPAID POST-SECONDARY EDUCATION EXPENSE BOARD,
Defendant-Appellant.

DECIDED: June 30, 1998

Before CLEVENGER, RADER, and BRYSON, *Circuit Judges*.

CLEVENGER, *Circuit Judge*.

This case requires us to determine whether the Eleventh Amendment bars a federal suit for patent infringement against a nonconsenting state. The district court held that it did not and denied Florida Prepaid Postsecondary Education Expense Board's (Florida Prepaid's) motion to dismiss for lack of subject matter jurisdiction. Because Congress clearly expressed its intent to abrogate state sovereign immunity for patent infringement suits brought in federal courts, and because

Congress abrogated state immunity pursuant to a valid exercise of power, we affirm the district court's decision denying Florida Prepaid's motion to dismiss. Consequently, we do not reach College Savings Bank's (College Savings') arguments that Florida Prepaid waived its sovereign immunity either by participating in the patent system or by failing to raise the sovereign immunity defense earlier in the litigation.

Appealed from: United States District Court for the District of New Jersey

Judge Garrett E. Brown, Jr.

I.

Procedural Posture

College Savings is a New Jersey chartered savings bank located in Princeton, New Jersey. Since 1987, College Savings has sold a certificate of deposit contract known as the CollegeSure® CD. The purpose of the CollegeSure® CD is to help individuals save money for the cost of college education expenses. College Savings guarantees returns sufficient to fund the uncertain future cost of education. The CollegeSure® CD is administered using an apparatus and methods disclosed in College Savings' U.S. Patent No. 4,722,055. Florida Prepaid, a body corporate of the State of Florida, administers a similar investment program aimed at aiding individuals in funding the cost of Florida public colleges and universities.[1] *See* Fla. Stat. § 240.551(l), (3). College Savings claims that,

[1] The district court concluded that, for purposes of immunity from suit, Florida Prepaid was an arm of the State of Florida. *See Edelman v. Jordan*, 415 U.S. 651, 663 (1974). We agree with the district court, and the parties have not contested this conclusion.

in the course of administering its investment program, Florida Prepaid has directly and indirectly infringed College Savings' patent.

On November 7, 1994, College Savings brought an infringement action against Florida Prepaid in the United States District Court for the District of New Jersey pursuant to the Patent and Plant Variety Protection Remedy Clarification Act (Patent Remedy Act), § 2, 35 U.S.C. §§ 271 (h), 296 (1994), which explicitly provides that states may be sued for patent infringement in the federal courts. *Pendente lite*, the Supreme Court handed down its decision in *Seminole Tribe of Florida v. Florida*, 517 U.S. 44 (1996), which overruled *Pennsylvania v. Union Gas Co.*, 491 U.S. 1 (1989), and held that Congress could not abrogate the sovereign immunity of the states when acting pursuant to its plenary power to regulate commerce under Article I of the Constitution. *See Seminole Tribe*, 517 U.S. at 72-73. In light of the Court's ruling in *Seminole Tribe*, Florida Prepaid moved to dismiss College Savings' claim as barred by the Eleventh Amendment. Florida Prepaid argued that the Patent Remedy Act was an unconstitutional attempt by Congress to use its Article I powers under the Patent Clause, U.S. Const. art. 1, § 8, cl. 8, to abrogate state sovereign immunity and to enlarge the federal courts' Article III jurisdiction, which *Seminole Tribe* proscribed. College Savings objected, contending that, in enacting the Patent Remedy Act, Congress was acting pursuant to its enforcement power under section 5 of the Fourteenth Amendment, *see Fitzpatrick v. Bitzer*, 427 U.S. 445 (1976). The use of this power was not only unaffected but was also expressly sanctioned by the Supreme Court's opinion in *Seminole Tribe*, claimed College Savings. *See* 517 U.S. at 71-72n.15 ("[M]any of those cases arose in the context of a statute passed under the Fourteenth Amendment, where

Congress' authority to abrogate is undisputed."). The United States intervened as of right under 28 U.S.C. § 2403(a) (1994) to defend the constitutionality of the Patent Remedy Act.

The district court denied Florida Prepaid's motion to dismiss, because it concluded that Congress had unambiguously abrogated the states' sovereign immunity in the Patent Remedy Act and had acted pursuant to a valid exercise of power under the Fourteenth Amendment. Florida Prepaid took this appeal over which we have jurisdiction pursuant to 28 U.S.C. § 1295(a)(1) (1 994). *See Puerto Rico Aqueduct & Sewer Auth. v. Metcalf & Eddy, Inc.*, 506 U.S. 139, 147 (1993) (holding that, pursuant to the collateral order doctrine and 28 U.S.C. § 1291, a state may appeal from a district court order denying it Eleventh Amendment immunity); *see also Swint v. Chambers County Comm'n*, 514 U.S. 35, 41-42 (1995) ("The collateral order doctrine is best but as a practical understood not as an exception to the final decision rule..... but as a practical construction of it.") (quoting *Digital Equip. Corp. v, Desktop Direct, Inc.*, 511 U.S. 863, 867 (1994)) (internal quotation marks omitted).

II

The Eleventh Amendment

We follow the regional circuit's standard of review regarding issues not pertaining to patent law. *See, e.g., Molins PLC v. Quigg*, 837 F.2d 1064, 1066. 5 USPQ2d 1526, 1527 (Fed. Cir. 1988). Under the law of the Third Circuit, the regional circuit encompassing New Jersey, our review of a dismissal on sovereign immunity grounds is plenary. *See Blanciak V. Allegieny Ludlurn Corp.*, 77 F.3d 690, 699 (3d Cir. 1996).

The Eleventh Amendment provides: "The Judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States by Citizens of another State, or by Citizens or Subjects of any Foreign State." U.S. Const. amend. XI. The Eleventh Amendment confirms that "each State is a sovereign entity in our federal system" and that '"it is inherent in the nature of sovereignty not to be amenable to the suit of an individual without its consent.'" *Seminole Tribe*, 517 U.S. at 54 (quoting *The Federalist No. 81*, at 487 (Alexander Hamilton) (Clinton Rossiter ed., 1961)). This immunity is not absolute, however, as Congress, in limited circumstances, is empowered to abrogate it. *See Fitzpatrick*, 427 U.S. at 456.

Determining whether Congress has abrogated the states' constitutionally secured immunity from suit in federal court is a two-step inquiry. The first step is to discern whether Congress has unequivocally expressed its intent to abrogate immunity. *See Seminole Tribe*, 517 U.S. at 55. The second step is to examine whether, in purporting to abrogate immunity, Congress overstepped its constitutional authority. *See id.* We dispense swiftly with the first step of the inquiry before turning our attention to the second, more arduous step.

III

Intent to Abrogate

Given the importance to our constitutional structure of the Eleventh Amendment's grant of sovereign immunity, a court will not assume that Congress has intended to use its awesome power to abrogate this immunity absent "unmistakably clear" statutory language to that effect.

Dellmuth v. Muth, 491 U.S. 223, 227-28, 230 (1989) ("[E]vidence of congressional intent [to abrogate state sovereign immunity] must be both unequivocal and textual."); *see Atascadero State Hosp. v. Scanlon*, 473 U.S. 234, 242-43 (1985). There is no dispute that the Patent Remedy Act is replete with language sufficient to satisfy this requirement. *See* 35 U.S.C. §§ 271(h), 296 (1994). Before passage of the Patent Remedy Act, Title 35 stated only that "whoever" without authority made, used, or sold a patented invention infringed the patent. *See* 35 U.S.C. § 271 (a) (1 988). After the Supreme Court's decision in *Atascadero*, which affirmed that "Congress may abrogate the States' constitutionally secured immunity from suit in federal court only by making its intention unmistakably clear in the language of the statute," 473 U.S. at 242, this court held that the Patent Act contained no such unequivocal statement of intent to abrogate, *see Jacobs Wind Elec. Co. v. Florida Dep't of Transp.*, 919 F.2d 726, 728, 16 USPQ2d 1972, 1973 (Fed. Cir. 1990); *see also Chew v. California*, 893 F.2d 331, 334, 13 USPQ2d 1393. 1396 (Fed. Cir. 1990).

In response to our decisions in *Jacobs Wind* and *Chew*, Congress amended the patent laws to express unambiguously its intent to abrogate the sovereign immunity of the states. *See* 35 U.S.C. §§ 271(h), 296 (1994): *see also* 137 Cong. Rec. S4046-48 (daily ed. Mar. 21, 1991) (statement of Sen. DeConcini) (noting that S. 758 was necessary in light of *Jacobs Wind* and *Chew*). Section 271 (h) now states: "As used in this section, the term 'whoever' includes any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his official capacity." Section 296 addresses the sovereign immunity issue even more specifically. It provides:

> Any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his official capacity, shall not be immune, under the eleventh amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in Federal court by any person . . . for infringement of a patent under section 271, or for any other violation under this title.

35 U.S.C. § 296(a) (1994).

We agree with the parties that, with this statutory language, Congress expressed quite pellucidly its intent to abrogate the states' immunity from federal suit for patent infringement. Therefore, the first step of the abrogation inquiry is plainly satisfied.

IV

Power to Abrogate

Our conclusion that Congress expressed a clear intent to abrogate the states' sovereign immunity leads us to the next step in our inquiry, which is whether Congress acted pursuant to a constitutional grant of power. The power of Congress to abrogate the states' immunity from suit in federal court has been found in only two provisions of the United States Constitution: the Interstate Commerce Clause, U.S. Const. art. 1, § 8, cl. 3, *see Union Gas*, 491 U.S. 1, 13-23 (1989), *overruled by Seminole Tribe*, 517 U.S. at 66, and the Fourteenth Amendment, *see Fitzpatrick*, 427 U.S. at 455-56. In *Seminole Tribe*, however, the Supreme Court held that Congress' vast power to regulate interstate commerce was nevertheless subordinate to the protection from federal suits by private litigants granted to the states by the Eleventh Amendment. *See* 517 U.S. at 72-73. In

the wake of *Seminole Tribe*, then, the solitary legislative tool that the Supreme Court has recognized for abrogating the sovereign immunity of the states is Congress' power to enforce the substantive provisions of the Fourteenth Amendment. *See* U.S. Const. amend. XIV, § 5.

The Senate and House committee reports expressly invoked the Fourteenth Amendment as authority for enacting the Patent Remedy Act. *See* S. Rep. No. 102280, at 8 (1992), *reprinted in* 1992 U.S.C.C.A.N. 3087, 3094 ("[T]he bill is justified as an acceptable method of enforcing the provisions of the fourteenth amendment."); H. R. Rep. No. 101-960, at 40 (1990). Notwithstanding this invocation of power, we must still examine the legitimacy of the congressional action. *See Woods v. Cloyd W. Miller Co.*, 333 U.S. 138, 144 (1948) ("The question of the constitutionality of action taken by Congress does not depend on recitals of the power which it undertakes to exercise.").

The Fourteenth Amendment is a clear limitation on the authority of the states. *See Fitzpatrick*, 427 U.S. at 453-56. By expanding the federal power at the expense of state autonomy, the Fourteenth Amendment "fundamentally altered the balance of state and federal power struck by the Constitution." *Seminole Tribe*, 517 U.S. at 59 (citing *Fitzpatrick* 427 U.S. at 455). Section 1 of the amendment provides:

> No State shall make or enforce any law which shall abridge the privileges or immunities of citizens of the United States; nor shall any State deprive any person of life, liberty, or property, without due process of law; nor deny to any person within its jurisdiction the equal protection of the laws.

Standing behind the imperative of section 1 is section 5, which grants to Congress the power to enforce the prohibitions of section 1 "by appropriate legislation."

The enforcement provision of the Fourteenth Amendment is far from unique in the constitutional scheme. Virtually identical provisions appear in the Thirteenth, Fifteenth, Nineteenth, Twenty-third, Twenty-fourth, and Twenty-sixth Amendments. In determining whether legislation enacted by Congress is an appropriate use of Congress' enforcement power, the Supreme Court has stated that Congress may use any rational means to effectuate the substantive provisions of the Amendments. *See South Carolina v. Katzenbach*, 383 U.S. 301, 324 (1966) (addressing the power of Congress under section 2 of the Fifteenth Amendment). To give meaning to this so-called rational relationship test, the Supreme Court has looked repeatedly to Chief Justice Marshall's classic formulation concerning the express powers of Congress, which was set forth many years before the enactment of the Civil War Amendments: "Let the end be legitimate, let it be within the scope of the constitution, and all means which are appropriate, which are plainly adapted to that end, which are not prohibited, but consist with the letter and spirit of the constitution, are constitutional. *McCulloch v. Maryland*, 17 U.S. (4 Wheat.) 316, 421 (1819); *see City of Boerne v. Flores*, 117 S. Ct. 2157, 2163 (1997) (stating that, with regard to Congress' enforcement power under the Fourteenth Amendment: "'Whatever legislation is appropriate, that is adapted to carry out the objects the amendments have in view, whatever tends to enforce submission to the prohibitions they contain . . . if not prohibited, is brought within the domain of congressional power'" (quoting *Ex parte Virginia*, 1 00 U.S. 339, 345-46 (1879))); *South Carolina v. Katzenbach*, 383 U.S. at 326.

Therefore, we are obliged to consider whether the objective of the legislation is constitutionally legitimate and whether the means crafted by Congress are plainly adapted to achieving this objective.

A. *Objective of the Patent Remedy Act*

Florida Prepaid first asserts that the goal of the Patent Remedy Act, which is to prevent states from infringing patents or obliging them to compensate the patent owner when they do, is not a legitimate objective under the Fourteenth Amendment. This is so, we understand Florida Prepaid to say, because the amendment was adopted to remedy racial discrimination, and according to Florida Prepaid, the authority of Congress under section 5 of the Fourteenth Amendment is narrowly confined to statutes that promote enforcement of the Equal Protection Clause against discrimination.

Undeniably, the Civil War Amendments were adopted to thwart state-sponsored racial discrimination. *See The Slaughter House Cases*, 83 U.S. (16 Wall.) 36, 71-72 (1872) ("[N]o one can fail to be impressed with the one pervading purpose found in [the Civil War Amendments], lying at the foundation of each, and without which none of them would have been even suggested; we mean the freedom of the slave race, the security and firm establishment of that freedom, and the protection of the newly-made freeman and citizen from the oppressions of those who had formerly exercised unlimited dominion over him."). However, in enforcing the Equal Protection Clause of the Fourteenth Amendment, the Supreme Court has broadened the protections conferred beyond just prohibiting racial discrimination. For example, the clause has been held to prohibit unjustified discrimination on the basis of gender. *see United States v. Virginia*, 518 U.S. 515, 534

(1996), alienage, *see Truax v. Raich*, 239 U.S. 33, 39 (1915), parentage, *see Glona v. American Guarantee & Liability Ins. Co.*, 391 U.S. 73, 76 (1968), criminal conviction, *see Rinaldi v. Yeager*, 384 U.S. 305, 308-09 (1966), and type of business, *see Atchison, Topeka & Santa Fe Ry. v. Vosburg*, 238 U.S. 56, 62 (1915). Consequently, the meaning of the Equal Protection Clause of the Fourteenth Amendment cannot be limited to the particular ill – racial discrimination – that Congress, at the time of the enactment of the Civil War Amendments, intended to redress.

Equally undeniably, the Supreme Court has enforcer the Due Process Clause of the Fourteenth Amendment against the states and has read it expansively to prohibit state actions wholly unrelated to discrimination of any sort. *See, e.g., Barry v. Barchi*, 443 U.S. 55, 64 (1979) (horse trainer's license protected); *Memphis Light, Gas & Water Div. v. Craft*, 436 U.S. 1, 9-12 (1978) (protecting utility service); *Goldberg v. Kelly*, 397 U.S. 254, 264 (1970) (protecting recipients of public assistance from a cessation of benefits without a pre-termination hearing). Florida Prepaid cites no authority forbidding Congress from enacting statues that abrogate state in order to protect persons from property deprivations without due process of law. Surely the enforcement power of Congress under section 5 must embrace the full range of behavior that the Supreme Court has held to violate the substantive provisions in section 1 of the Amendment. *See City of Boerne*, 117 S. Ct. at 2163 ("The 'provisions of this article,' to which § 5 refers, include the Due Process Clause of the Fourteenth Amendment."). We therefore reject the proposition that congressional authority under section 5 is restricted to only a certain provision of the

Fourteenth Amendment, namely the Equal Protection Clause.

Protecting a privately-held patent from infringement by a state is certainly a legitimate congressional objective under the Fourteenth Amendment, which as noted above, empowers Congress to prevent state-sponsored deprivation of private property. It is, of course, beyond cavil that the patent owned by College Savings is property. *See Hartford-Empire Co. v. United States*, 323 U.S. 386, 415, 64 USPQ2d 18, 31-32 (1945) ("That a patent is property, protected against appropriation both by individuals and government, has long been settled."); *Consolidated Fruit-Jar Co. v. Wright*, 94 U.S. 92, 96 (1876) ("A patent for an invention is as much property as a patent for land."); *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 599, 225 USPQ 243, 246 ("It is beyond reasonable debate that patents are property."), *modified in other respects*, 771 F.2d 480, 226 USPQ 985 (Fed. Cir. 1985); *see also* 35 U.S.C. § 261 (1994) ("[P]atents shall have the attributes of personal property."). This is so because, at bottom, a patent is but the right to exclude others from making, using, or selling an invention, *see McQuewan*, 55 U.S. (14 How.) 539, 549 (1852) 35 U.S.C. § 271 (1994); *Bloomer v. McQuewan*, 55 U.S. (14 How.) 539, 549 (1852) ("The franchise which the patent grants, consists altogether in the right to exclude every one from making, using, or vending the thing patented, without the permission of the patentee."), and the right to exclude others is established as among the "most essential sticks in the bundle of rights that are commonly characterized as property," *Kaiser Aetna v. United States*, 444 U.S. 164, 176 (1979); *see Schenck v. Nortron Corp.*, 713 F.2d 782, 786 n.3, 218 USPQ 698, 701 n.3 (Fed. Cir. 1983) ("The patent right is but the right to exclude others, the very definition of; 'property.'").

Indeed, the United States' "unlicensed use of a patented invention is properly viewed as a taking of property under the Fifth Amendment." *Hughes Aircraft Co. v. United States*, 86 F.3d 1566, 1571, 39 USPQ2d 1065, 1068 (Fed. Cir. 1996), *vacated on other grounds*, 117 S. Ct. 1466 (1997). In subjecting the states to suit in federal court for patent infringement, Congress sought to prevent states from depriving, patent owners of their property without due process through infringing acts, an objective that comports with the text and judicial interpretations of the Fourteenth Amendment. The Constitution itself, by recognizing the importance of securing the rights of inventors to their inventions, *see* U.S. Const. art. 1, § 8, signals a reason for Congress to secure patent property from risk of deprivation.

In support of its contention that the objective of the Patent Remedy Act is not permissible under the Fourteenth Amendment, Florida Prepaid argues that, even if it has deprived College Savings of its property, it has not done so without providing due process. As a result, no constitutional violation occurred. Absent a constitutional violation, Florida Prepaid continues, Congress is without power to abrogate under the Fourteenth Amendment. This argument, although beguiling, must fail. It is true that

College Savings could have sought relief in the Florida Legislature through a claims bill, *see* Fla. Stat. § 11.065 [2], and that this avenue of relief most likely provides sufficient process to preclude a violation of the Fourteenth Amendment. However, as the Supreme Court instructed in *South Carolina v. Katzenbach*, Congress may forbid even state conduct that is not unconstitutional so long as the legislation is aimed at preventing a violation. *See* 383 U.S. at 333-34 (upholding legislation banning literacy tests and similar voting requirements despite the facial constitutionality of the measures, because Congress was responding to prior discriminatory application of such measures); *Katzenbach v. Morgan*, 384 U.S. 641, 658 (1966). Therefore, "[l]egislation which deters or remedies constitutional violations can fall within the sweep of Congress' enforcement power even if in the process it prohibits conduct which is not itself unconstitutional." *City of Boerne*, 117 S, Ct. at 2163.

Under Florida Prepaid's interpretation, abrogation of a state's immunity from suit under the Patent Remedy Act would apply only to those states that fail to provide a remedy for compensation for patent infringement by the

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[2] Florida Prepaid also asserts that College Savings could have brought a takings claim in Florida State Court. Although the Supreme Court of the State of Florida has allowed a takings claim premised on a patent infringement theory to proceed in state court, *see Jacobs Wind Elec. Co. v. Florida Dep't of Transp.*, 626 So.2d 1333, 1337 (Fla. 1993), and we have opined in dicta that such a claim could be brought in state court, *see Jacobs Wind*, 919 F.2d at 728, 16 USPQ2d at 1974, such process may be illusory. The Supreme Court has not indicated whether a takings claim based on patent infringement is cognizable in state courts in light of the fact that Congress has declared that claims arising under federal patent law are within the exclusive province of the federal courts. *See* 28 U.S.C. § 1338(a) (1994)..

state, or that provide a remedy of such inconsequence as to be illusory. This interpretation imputes to Congress an intent to overlook the enforcement of federal patent rights on a piecemeal, state-by-state basis and to deny Congress the authority to subject all states to suit for patent infringement in the federal courts, regardless of the extent of procedural due process that may exist at any particular time. We do not read the precedent to permit abrogation of the state's immunity only in those instances in which a state provides no due process in its own courts to redress the alleged misconduct. We also do not read the precedent to require Congress to customize statutes enacted under the Fourteenth Amendment to take account of such variations as may exist among the states in remedies offF-,-sd for alleged infringement of patents. In sum, the fact that Florida may today have some process available to a patentee asserting infringement by the state does not preclude Congress from exercising its powers under the Fourteenth Amendment through the Patent Remedy Act.

Florida Prepaid next argues that the objective of the Patent Remedy Act is impermissible because, if we were to allow it, Congress would be able to abrogate state sovereign immunity pursuant to its Article I power, which is the exact result that the Supreme Court proscribed in *Seminole Tribe*, *See* 517 U.S. at 72-73. This is because the "property" protected by Congress under the Fourteenth Amendment, in this case a patent, is federally created property under Title 35 of the U.S. Code. *See* 35 U.S.C. § 1 0 1 et seq. (1 994). Florida Prepaid asserts that, just as Congress created the patent system, it could ostensibly choose to create any sort of property using its Article I powers, and then, argues Florida Prepaid, abrogate the states' immunity to suit for the deprivation of that property. Surely, urges Florida Prepaid, Congress cannot accomplish indirectly through the

Fourteenth Amendment precisely what it is forbidden from doing directly through Article 1.

This argument has, in fact, met with some acceptance among our sister circuits. *See Chavez v. Arte Publico Press*, 139 F.3d 504, 510-11, 46 USPQ2d 1541, 1546 (5th Cir. 1998) (holding that Congress could not abrogate a state's immunity to suit for copyright infringement through the Due Process Clause of the Fourteenth Amendment because "it [would be] a direct end-run around Seminole's holding that Article I powers may not be employed to avoid the Eleventh Amendment's limit on the federal judicial power. Congress could easily legislate 'property' interests and then attempt to subject states to suit in federal court for the violation of such interests."); *College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd.*, 131 F.3d 353, 361, 45 USPQ2d 1001, 1007 (3d Cir. 1997) (stating that the right to be free of unfair competition under section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a) (1994), does not implicate a property right under the Fourteenth Amendment and noting: "If a state's conduct impacting on a business always implicated the Fourteenth Amendment, Congress would have almost unrestricted power to subject states to suit through the exercise of its abrogation power. Congress could pass any law that tangentially affected the ability of businesses to operate and then create causes of action against the states in federal court if they infringed on those federally created rights."); *cf. In re Creative Goldsmiths, Inc.*, 119 F.3d 1140, 1146-47 (4th Cir. 1997) (holding that Congress could not validly abrogate state sovereign immunity under the Bankruptcy Code because "[i]f the Fourteenth Amendment is held to apply so broadly as to justify Congress' enactment of the Bankruptcy Code as a requirement of due process, then the same argument would justify every federal

enforcement scheme as a requirement of due process under the Fourteenth Amendment"), *cert. denied*, 118 S. Ct. 1517 (1998).

These cases miss the mark, however, because they ignore the essential fact that, because the Fourteenth Amendment was enacted subsequent to the Eleventh Amendment. unlike Article 1, it expressly qualified the principle of sovereign immunity. *See Union Gas*, 491 U.S. at 41-42 (Scalia, J., dissenting) ("The Eleventh Amendment, and the principle of state sovereignty which it embodies, are necessarily limited' by the [Fourteenth Amendment]." (citations omitted) (quoting *Fitzpatrick*, 427 U.S. at 456)). Our sister circuits wrongly equate the result afforded by congressional power under the Fourteenth Amendment and Article I with the constitutional structure under which Congress governs and the federal courts exercise jurisdiction. When the states adopted the Fourteenth Amendment and consented to cede a portion of their authority to the federal government, it was within their contemplation that they limited their Eleventh Amendment immunity. *Fitzpatrick* teaches so, and we adhere to its reasoning. *See* 427 U.S. at 453-54.

Although there may be some property interests that are not protected by the Fourteenth Amendment, *see, e.g. Paul v. Davis*, 424 U.S. 693, 712 (1976) (holding Fourteenth Amendment, does not secure to persons the right to prevent disclosure of their arrest), and discriminating between property interests that are protectable under the Fourteenth Amendment and those that are not may prove a difficult task, such central and historic fixtures in the realm of property as patents surely warrant protection from deprivation by states. Unlike many forms of property only recently recognized, patents were certainly considered

property at the time of the adoption of the Fourteenth Amendment in 1868. *See Brown v. Duchesne*, 60 U.S. (9 How.) 183, 197 (1856) ("For, by the laws of the United States, the rights of a party under a patent are his private property."). To claim that patents do not warrant protection is tantamount to asserting that Congress may not, under any circumstance, abrogate the states' Eleventh Amendment immunity pursuant to the Due Process Clause when seeking to protect persons from the risk of unlawful deprivation of their property. Such would, in our view, amount to a direct contradiction of the text of the Fourteenth Amendment and its application by the Supreme Court.

If the reasoning of *Fitzpatrick* is to retain vitality, it must be that protecting a well-established property interest such as a patent is a permissible objective under the Fourteenth Amendment. *See* 427 U.S. at 456 ("We think that Congress may, in determining what is 'appropriate legislation' for the purpose of enforcing the provisions of the Fourteenth Amendment, provide for private suits against States or state officials which are constitutionally impermissible in other contexts."). We therefore conclude that the first part of Chief Justice Marshall's formulation of the test to identify "appropriate legislation" under the Fourteenth Amendment is met. *See McCulloch v. Maryland*, 17 U.S. at 421. The objective of the Patent Remedy Act, which is to protect privately-held patent property from deprivation by states, is constitutionally legitimate.

B. *Congruence between Means and Potential Harm*

Florida Prepaid also suggests that, even if the Patent Remedy Act's objective is constitutionally legitimate, the means by which Congress sought to protect the patent right are out of proportion to the harm that the Patent Remedy

Act endeavors to prevent, or in the words of Chief Justice Marshall, the means are not "plainly adapted" to the constitutional end ana thus wither under constitutional scrutiny. Florida Prepaid reminds us that "Ja]s broad as the congressional enforcement power is, it is not unlimited." *Oregon v. Mitchell*, 400 U.S. 112, 128 (1970) (opinion of Black, J.).

The Supreme Court's decision in *City of Boerne* guides our analysis as we attempt to discern whether the Patent Remedy Act is an appropriate means through which Congress exercised its power to enforce the substantive guarantees of the Fourteenth Amendment. That case challenged the Religious Freedom Restoration Act (RFRA) as an unconstitutional extension of Congress' power to enforce the substantive provisions of the Fourteenth Amendment. *See* 117 S. Ct. at 2160. Through RFRA, Congress sought to circumvent the Supreme Court's ruling in *Employment Division, Department of Human Resources of Oregon v. Smith*, 494 U.S. 872 (1990), which eschewed the "compelling state interest" test of *Sherbert v. Verner*, 374 U.S. 398 (1963), for neutral, generally applicable laws that might incidentally burden a religious practice, *See City of Boerne*, 117 S. Ct. at 2160-61. Congress, through RFRA, reinstated the compelling state interest test, which required that a state show a compelling interest when enacting laws that, although facially neutral in their treatment of religion, imposed a substantial burden on religious exercise. *See* 42 U.S.C. §2000bb-1 (1994). In *City of Boerne*, the Court, noting that Congress' enforcement power did not extend to include the "power to decree the substance of the Fourteenth Amendment's restrictions on the States," *id.* at 2164, declared RFRA an unconstitutional attempt by Congress to legislate the substance of the Fourteenth Amendment, *see id.* at 2172.

The Court admitted: "While the line between measures that remedy or prevent unconstitutional actions and measures that make a substantive change in the governing law is not easy to discern, and Congress must have wide latitude in determining where it lies, the distinction exists and must be observed." *Id.* at 2164.

As an aid in distinguishing between provisions that remedy or prevent unconstitutional actions and those that change the substance of the Fourteenth Amendment, the Court offered the following observation: "There must be a proportionality between the injury to be prevented or remedied and the means adopted to that end. Lacking such a connection, legislation may become substantive in operation and effect." *Id.*

1. *Injury to be prevented*

In *City of Boerne*, because no evidence was before Congress reflecting examples of modern instances of generally applicable laws passed because of religious bigotry, the Supreme Court inferred that the injury to be prevented or remedied by RFRA was slight. *See id.* at 2169. In contrast, the Court noted that, in *South Carolina v. Katzenbach*, which upheld various provisions of the Voting Rights Act of 1965, the congressional action was "necessary to 'banish the blight of racial discrimination in voting, which has infected the electoral process in parts of our country for nearly a century.'" *City of Boerne*, 117 S. Ct. at 2167 (quoting *South Carolina v. Katzenbach*, 383 U.S. at 308). The remedies provided by the Voting Rights Act were deemed necessary given the tenacious pervasiveness of discrimination in state electoral processes. *See id.*

Florida Prepaid argues that, as with the absence of injury in *City of Boerne*, Congress was confronted with no evidence of widespread patent infringement by the states, and that absent this factual predicate, abrogating state sovereign immunity was impermissible. The legislative record of the Patent Remedy Act contains indications that the extent of previous patent infringement by states had not yet risen to emergency levels. *See Patent Remedy Clarification Act: Hearings on H.R. 3886 Before the Subcomm. on Courts, Intellectual Property, and the Admin. of Justice of the House of Representatives Comm. on the Judiciary*, 101st Cong. 22 (1990) (statement of Rep. Kastenmeier) ("We do not have any evidence of massive or widespread violation of patent laws by the States either with or without this immunity.") [hereinafter *Hearings*]. Nonetheless, the same record discloses significant instances of alleged patent infringement by states or state entities. *See id.* at 10-11, 30-31, 51 (prepared statements of Jeffrey M. Samuels, Acting Commissioner of Patents and Trademarks, United States Department of Commerce; Robert P. Merges, Associate Professor of Law, Boston University School of Law; arid William S. Thompson, President, American Intellectual Property Law Association); *see also Jacobs Wind*, 919 F.2d at 728, 16 USPQ2d at 1973 (affirming the dismissal of an infringement claim against the state as barred by the Eleventh Amendment because Congress failed to enunciate clearly in the text of the patent laws that it intended to abrogate the sovereign immunity of states); *Chew*, 893 F.2d at 332-33, 13 USPQ2d at 1394 (same), *Watts v. University of Del.*, 622 F.2d 47, 53, 206 USPQ 106, 112 (3d Cir. 1980) (involving an infringement action against an arm of the State of Delaware); *Lemelson v. Ampex Corp.*, 372 F. Supp. 708, 711-12, 181 USPQ 313, 314-15 (N.D. 111. 1974) (denying a motion to dismiss a

claim against a state for contributory infringement, because the state had waived its immunity under *Parden v. Terminal Railway*, 377 U.S. 184 (1964)); *Hercules. Inc. v. Minnesota State Highway Dep't.*, 337 F. Supp. 795, 798, 172 USPQ 644, 647 (D. Minn. 1972) (concluding that injunctive relief under *Ex parte Young*, 209 U.S. 123 (1908), but not monetary relief under Title 35, was available to a patentee for alleged infringement by a state); *William C. Popper & Co v. Pennsylvania Liquor Control Bd.*, 16 F. Supp. 762, 763 (E.D. Pa. 1936) (dismissing an infringement claim as barred by the Eleventh Amendment); *Automobile Abstract & Title Co. v. Haggerty*, 46 F.2d 86, 87-88 (E.D. Mich. 1931) (same); *Warren Bros. Co. v. Kibbe*, 43 F.2d 582, 584 (D. Ore. 1925) (holding that a state had waived its immunity to suit for patent infringement by agreeing to indemnify contractors for royalties owed due to their infringement of patents for paving materials); *cf. May v. Board of Comm'rs*, 30 F. 250, 261 (C.C.N.D. Ohio 1887) (holding that Ohio counties could be sued for patent infringement). In addition, the legislative history reflects the recognition that, as commercialization of basic research continues, particularly in the biotechnology field, state universities are becoming increasingly more active in the commerce of intellectual property, and, naturally, an increase in the number of patent suits against the states likely will ensue. *See* 137 Cong. Rec. S4046 (daily ed. Mar. 21, 1991) (statement of Sen. DeConcini); H. R. Rep. No. 101-960, at 38 (1990). Certainly the harm that Congress perceived in this case is neither of the magnitude nor caliber of the harm that the Voting Rights Laws sought to remedy. We cannot say, however, that absent harm of that order, Congress has no power to make the states amenable to suit in federal court for breaching the guarantees of the Fourteenth Amendment.

Also important, when states infringe patents, they cause considerable harm to the patentee and the patent system as a whole. Absent the right to sue a state under Title 35 for infringement, a patent declines drastically in value, because there is no access to the remedies of attorney fees and treble damages. *See* 35 U.S.C. §§ 284, 285 (1994). Although injunctive relief would seem to be available against the state in federal court under *Ex Parte Young*, 209 U.S. 123 (1908), such relief falls far short of the protection that Congress has provided. This is so because, under the federal patent law, damages begin to accrue at the time that the alleged infringer receives notice of infringement, either through a marked product or directly from the patentee, *see* 35 U.S.C. § 287 (1994), whereas injunctive relief prevents only future infringement, without compensating for past infringement. Consequently, an equitable remedy such as an injunction, preventing only future damage, would provide an insufficient disincentive to infringe. Furthermore, without the disincentive provided by the patent law's damages provisions, a patentee of inventions utilized primarily by states would suffer even greater harm, because an overwhelming portion, rather than a minor subset, of the potential market would be more apt to infringe or to procure cheaper infringing devices until the patentee brings suit. This would render the patentee's patent almost worthless. *See James v. Campbell*, 104 U.S. 356, 358 (1882) (stating with regard to infringement by the federal government: "Many inventions relate to subjects which can only be properly used by the government, such as explosive shells. rams, and submarine batteries to be attached to armed vessels. If it could use such inventions without compensation, the inventors could get no return at all for their discoveries and experiments."); *see also Jacobs Wind*, 919 F.2d at 727, 16 USPQ2d at 1973 (patent on a

tidal flow system); *Chew*, 893 F.2d at 332, 13 USP02d at 1394 (patent on a method for testing automobile exhaust emissions).

2. Means adopted

Against this harm to patent holders and the entire patent system, we balance the burden placed on the states by subjecting them to suit in federal court for infringement. For "[w]hile preventive rules are sometimes appropriate remedial measures, there must be a congruence between the means used and the ends to be achieved." *City of Boerne*, 117 S. Ct. at 2169. The ends to be achieved by the Patent Remedy Act are to assure that patentees will not be deprived of their property rights by claims of immunity. Although this may be a modest end, at least when compared with the goals of the Voting Rights legislation, the means of effecting that end are similarly modest and circumscribed. The Patent Remedy Act holds states monetarily accountable for patent infringement, an unlawful act. *See* 35 U.S.C. § 271 (1994). Conduct that could constitute patent infringement is part of the states' commercial activity, not its central political governance role. Thus, the Patent Remedy Act will rarely constrict or restrain a state in the performance of its core governmental functions. In contrast, in *City of Boerne*, RFRA's "[s]weeping coverage ensure[(d] its intrusion at every level of government, displacing laws and prohibiting official actions of almost every description and regardless of subject matter." 117 S. Ct. at 2170. Any act of a state that could be shown to burden substantially the practice of religion was affected by RFRA, even actions that were otherwise perfectly legitimate. Here, the Patent Remedy Act speaks only to a state's unauthorized production, use, or sale of a patented device or method. A state found to have infringed a patent is subject to the same

consequences as a private party infringer, namely damages subject to trebling, attorney fees, and injunctive relief. The damages in such cases have long been established by Congress as proper and necessary to afford full compensation to a patentee. There is no sound reason to hold that Congress cannot subject a state to the same civil consequences that face a private party infringer. As noted in the legislative history of the Patent Remedy Act, states now engage fully in the intellectual property marketplace, even often asserting their own patent rights. *See Hearings, supra*, at 36-37; *see also Regents of the Univ. of Cal. v. Eli Lilly & Co.*, 119 F.3d 1559, 1564, 43 USPQ2d 1398, 1402 (Fed. Cir. 1997), *cert. denied*, 118 S. Ct. 1548 (1998). The Act subjects states to no greater burdens than those that must be shouldered by private parties. Therefore, the burden placed upon states by the Patent Remedy Act is not so great as to undermine the congressional abrogation of immunity.

Unlike the statute at issue in *City of Boerne*, the burden that the Patent Remedy Act places on states is slight, and it is not disproportionate or incongruous with the significant harm to patent holders who, absent abrogation of Eleventh Amendment immunity, would be unable to enforce fully the rights conveyed by their patent. The Patent Remedy Act thus achieves the congruence between the injury to be prevented and the means adopted to remedy the injury that distinguishes a permissible, remedial exercise of Congress' power under the Fourteenth Amendment from an impermissible extension of the substance of the Fourteenth Amendment rights themselves. *See City of Boerne, supra*. Hence, the second part of Chief Justice Marshall's test for "appropriate legislation" is satisfied; the means of the Patent Remedy Act are plainly adapted to its end. *See McCulloch v. Maryland*, 17 U.S. at 421.

V

Conclusion

Because Congress clearly expressed its intent to abrogate the sovereign immunity of the states to suit for patent infringement, and because Congress exercised its intent pursuant to a valid exercise of power, the decision of the district court denying Florida Prepaid's motion to dismiss the claim as barred by the Eleventh Amendment is

AFFIRMED.